

State of Montana  
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

**DEPARTMENT OF  
LABOR AND INDUSTRY**

Financial-Compliance Audit for the  
Two Fiscal Years Ended June 30, 1988

This report contains 28 audit recommendations.  
Major issues addressed in the report include:

- ▶ \$417,876 recovery of General Fund moneys
- ▶ \$157.3 million unfunded liability in the State Compensation Insurance Fund
- ▶ Medical benefit payment system operations
- ▶ Workers' compensation payment automation
- ▶ Data processing system security

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## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

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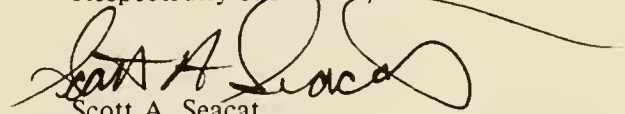
January 1989

To the Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for the two fiscal years ending June 30, 1988. Included in this report are recommendations concerning medical benefit payments, workers' compensation payment automation, unfunded liability in the State Compensation Insurance Fund, recovery of General Fund moneys, and data processing system security. We also assessed the implementation status of recommendations contained in the Limited Scope Performance Audit of the Division of Workers' Compensation, which was dated July 1987. The department's written response to audit recommendations is included in the back of the audit report.

We thank the commissioner and department staff for their assistance and cooperation.

Respectfully submitted,

  
Scott A. Seacat  
Legislative Auditor



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Office of the Legislative Auditor

DEPARTMENT OF LABOR AND INDUSTRY

Financial-Compliance Audit for the  
Two Fiscal Years Ended June 30, 1988

Members of the audit staff involved in this audit were: Julie Barr, Maryrose Beasley, Jody Bisom, Paul Christofferson, Rebecca Dorwart, John Fine, Dan Gaughan, Victoria Hunthausen, Chuck Jensen, Jill Roullier, Shari Scoles, and Cindy Susott.



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

|                       |                                                                             |
|-----------------------|-----------------------------------------------------------------------------|
| Mary M. "Peg" Hartman | Commissioner, through December 30, 1988<br>Department of Labor and Industry |
| Mike Micone           | Commissioner, effective January 2, 1989<br>Department of Labor & Industry   |
| Robert Robinson       | Administrator, through December 30, 1988<br>Workers' Compensation Division  |
| Rod Sager             | Administrator<br>Centralized Services Division                              |
| Chuck Hunter          | Administrator<br>Unemployment Insurance Division                            |
| T. Gary Curtis        | Administrator<br>Job Service Division                                       |
| Anne MacIntyre        | Administrator<br>Human Rights Division                                      |
| Sue Mohr              | Administrator<br>Employment Policy Division                                 |
| Robert R. Jensen      | Administrator<br>Employment Relations Division                              |

## SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the department's reply.

### Page

#### Recommendation #1

The department:

- A. Deposit the assessments in the Special Revenue Fund as required by state law. 4

Agency Response: Concur. See page 47.

- B. Deposit \$417,876 and future interest earned on the assessments in the General Fund. 4

Agency Response: Do not concur. See page 47.

#### Recommendation #2

The department:

- A. Implement control procedures to prevent medical payment errors. 8

Agency Response: Concur. See page 47.

- B. Adopt procedures to reduce the time required to process medical payments. 8

Agency Response: Concur. See page 48.

#### Recommendation #3

The department automate the processing of compensation checks. 9

Agency Response: Concur. See page 48.

#### Recommendation #4

The department:

- A. Ensure the DWC Data Processing systems provide a suspense file for reserve transactions, compensation payments, and medical payment financial adjustments. 10

Agency Response: Concur. See page 48.

SUMMARY OF RECOMMENDATIONS  
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| B. Implement control procedures to decrease the processing time of rejected medical payment documents.                              | 10          |
| <u>Agency Response:</u> Concur. See page 49.                                                                                        |             |
| <br><u>Recommendation #5</u>                                                                                                        |             |
| The department implement procedures in the rate setting process to ensure the SCIF is self-supporting in compliance with state law. | 12          |
| <u>Agency Response:</u> Concur. See page 49.                                                                                        |             |
| <br><u>Recommendation #6</u>                                                                                                        |             |
| The department:                                                                                                                     |             |
| A. Automate the initial reserve process.                                                                                            | 13          |
| <u>Agency Response:</u> Concur. See page 49.                                                                                        |             |
| B. Ensure the reserve analyst documents changes in reserve estimates.                                                               | 13          |
| <u>Agency Response:</u> Do not concur. See page 49.                                                                                 |             |
| <br><u>Recommendation #7</u>                                                                                                        |             |
| The department compile historical reserve data by injury type on its computer system.                                               | 13          |
| <u>Agency Response:</u> Concur. See page 50.                                                                                        |             |
| <br><u>Recommendation #8</u>                                                                                                        |             |
| The department continue development of procedures to reconcile totals of the 12 Year Report.                                        | 14          |
| <u>Agency Response:</u> Concur. See page 50.                                                                                        |             |
| <br><u>Recommendation #9</u>                                                                                                        |             |
| The department establish and implement procedures to ensure inactive files are microfiched for storage in a timely manner.          | 14          |
| <u>Agency Response:</u> Concur. See page 50.                                                                                        |             |

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| <u>Recommendation #10</u>                                                                                                   |             |
| The department:                                                                                                             |             |
| A. Seek proper authorization for and record all inter-entity loans.                                                         | 15          |
| <u>Agency Response:</u> Concur. See page 51.                                                                                |             |
| B. Develop a billing schedule that ensures consistent timing of collections from participants in the three insurance plans. | 15          |
| <u>Agency Response:</u> Partially concur. See page 51.                                                                      |             |
| <u>Recommendation #11</u>                                                                                                   |             |
| The department charge interest on overdue workers' compensation premium accounts.                                           | 16          |
| <u>Agency Response:</u> Conditionally concur. See page 51.                                                                  |             |
| <u>Recommendation #12</u>                                                                                                   |             |
| The department:                                                                                                             |             |
| A. Restructure ACF2 rules to limit computer access to the level job duties require.                                         | 20          |
| <u>Agency Response:</u> Partially concur. See page 51.                                                                      |             |
| B. Implement procedures to ensure system access is cancelled for terminated employees.                                      | 20          |
| <u>Agency Response:</u> Concur. See page 52.                                                                                |             |
| C. Develop and implement procedures to protect password security.                                                           | 20          |
| <u>Agency Response:</u> Partially concur. See page 52.                                                                      |             |
| D. Segregate incompatible job duties in the EDP function.                                                                   | 20          |
| <u>Agency Response:</u> Partially concur. See page 53.                                                                      |             |

SUMMARY OF RECOMMENDATIONS  
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| <u>Recommendation #13</u><br>The department ensure adequate segregation of duties among employees administering unemployment taxes.                                                | 21          |
| <u>Agency Response:</u> Concur. See page 54.                                                                                                                                       |             |
| <u>Recommendation #14</u><br>The department restrictively endorse checks upon initial receipt.                                                                                     | 21          |
| <u>Agency Response:</u> Do not concur. See page 54.                                                                                                                                |             |
| <u>Recommendation #15</u><br>The department strengthen controls over undelivered benefit and refund checks .                                                                       | 22          |
| <u>Agency Response:</u> Partially concur. See page 55.                                                                                                                             |             |
| <u>Recommendation #16</u><br>The department develop and implement procedures to ensure physical security of supplies inventory.                                                    | 23          |
| <u>Agency Response:</u> Concur. See page 56.                                                                                                                                       |             |
| <u>Recommendation #17</u><br>The department develop procedures to ensure contract expenditures are supported by written agreements.                                                | 23          |
| <u>Agency Response:</u> Concur. See page 56.                                                                                                                                       |             |
| <u>Recommendation #18</u><br>The department establish procedures to ensure the financial activity recorded in SBAS is in accordance with generally accepted accounting principles. | 25          |
| <u>Agency Response:</u> Concur. See page 56.                                                                                                                                       |             |

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| <u>Recommendation #19</u><br>The department record allowance for doubtful accounts according to state policy.                      | 26          |
| <u>Agency Response:</u> Concur. See page 57.                                                                                       |             |
| <u>Recommendation #20</u><br>The department deposit receipts on a timely basis in accordance with state law.                       | 27          |
| <u>Agency Response:</u> Partially concur. See page 57.                                                                             |             |
| <u>Recommendation #21</u><br>The department transfer abandoned property to the Department of Revenue in accordance with state law. | 27          |
| <u>Agency Response:</u> Concur. See page 58.                                                                                       |             |
| <u>Recommendation #22</u><br>The department:                                                                                       |             |
| A.    Require duplicate receipts of payments made to workers' compensation recipients as required by state law.                    | 28          |
| <u>Agency Response:</u> Conditionally concur. See page 58.                                                                         |             |
| B.    Seek legislation to change the statute requiring receipts.                                                                   | 28          |
| <u>Agency Response:</u> Concur. See page 58.                                                                                       |             |
| <u>Recommendation #23</u><br>The department seek legislation to repeal the requirement for compiling census reports.               | 28          |
| <u>Agency Response:</u> Concur. See page 59.                                                                                       |             |
| <u>Recommendation #24</u><br>The department:                                                                                       |             |
| A.    Formulate a written policy defining "unduly dangerous" workplaces.                                                           | 29          |
| <u>Agency Response:</u> Partially concur. See page 59.                                                                             |             |

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| B. Enforce state law regarding advanced rate assessments for "unduly dangerous" workplaces.                                         | 29          |
| <u>Agency Response:</u> Partially concur. See page 59.                                                                              |             |
| <br><u>Recommendation #25</u>                                                                                                       |             |
| The department adopt cash management procedures to ensure timely drawdowns of federal grant funds.                                  | 30          |
| <u>Agency Response:</u> Partially concur. See page 59.                                                                              |             |
| <br><u>Recommendation #26</u>                                                                                                       |             |
| The department continue to develop and implement procedures to review subgrantee audit reports for compliance with audit standards. | 31          |
| <u>Agency Response:</u> Concur. See page 60.                                                                                        |             |
| <br><u>Recommendation #27</u>                                                                                                       |             |
| The department adopt procedures to ensure federal financial reports are supported by the state's accounting records.                | 31          |
| <u>Agency Response:</u> Concur. See page 60.                                                                                        |             |
| <br><u>Recommendation #28</u>                                                                                                       |             |
| The department ensure federal reports are submitted in a timely manner.                                                             | 32          |
| <u>Agency Response:</u> Concur. See page 60.                                                                                        |             |

## INTRODUCTION

We performed a financial-compliance audit of the Montana Department of Labor and Industry for the two fiscal years ended June 30, 1988. The objectives of the audit were to:

- 1) Make recommendations for improvements in the management and internal accounting controls of the department.
- 2) Determine the implementation status of prior audit recommendations.
- 3) Determine department compliance with applicable laws and regulations.
- 4) Determine if the financial schedules present fairly the results of operations of the department for the two fiscal years ended June 30, 1988.

This report contains 28 recommendations to the department. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

## BACKGROUND

The Department of Labor and Industry was created by the Executive Reorganization Act of 1971. The primary functions of the department are to administer the Unemployment Insurance and Workers' Compensation benefit programs and provide employment services through Job Service offices. The department is organized into seven divisions and the office of the commissioner with a total authorized full-time staffing level (FTE) of 808 for fiscal year 1987-88. A brief description of each division follows:

Commissioner's Office - provides overall administration of the Department of Labor and Industry (4 FTE);

Centralized Services Division - provides overall management and support services to the department. Services include legal assistance, personnel, accounting, data processing, budgeting, and economic forecasting (66 FTE);

Employment Policy Division - administers the Job Training Partnership Act (JTPA) for the state of Montana. JTPA is a federal program to prepare unskilled persons for employment. The division also administers the Project

Work program. The division develops data and statistics related to employment (41 FTE);

Employment Relations Division - administers the Montana Collective Bargaining Act and the Nurses' Employment Practices Act. It hears classification appeals for state government employees and disputes concerning administration of Montana's Unemployment Insurance laws. The division also performs audits of employers for accuracy of workers' compensation premium and unemployment insurance tax remittances (54 FTE);

Human Rights Division - provides administrative support to the Human Rights Commission. The Human Rights Commission enforces state and federal laws designed to eliminate discrimination in employment, public accommodations, housing, financing and credit, education, and government services. The division is allocated to the Department of Labor and Industry for administrative purposes only (9 FTE);

Job Service Division - acts as a labor exchange through job service offices throughout the state by listing available jobs and referring qualified personnel to employers (340 FTE);

Unemployment Insurance Division - administers state and federal unemployment insurance laws. It collects unemployment insurance taxes and provides benefit payments to eligible claimants (89 FTE);

Workers' Compensation Division - administers state workers' compensation laws. It collects workers' compensation premiums and taxes, provides compensation and medical payments to workers injured on the job, monitors private insurers' adequacy of coverage and payment, and enforces occupational safety laws. The division is allocated to the Department of Labor and Industry for administrative purposes only (205 FTE).

#### PRIOR AUDIT RECOMMENDATIONS

The financial-compliance audit of the Department of Labor and Industry for the two fiscal years ended June 30, 1986, contained 23 recommendations still applicable to the department. The department implemented 13, partially implemented three and did not implement seven. The recommendations not implemented relate to medical payments (page 5), rejected documents (page 9), reconciliation of run totals for the 12 year report (page 13), data processing system security (page 16), restrictive endorsement of negotiable instruments and timely deposits (pages 21 and 26), controls over undelivered checks (page 21) and advanced rate assessments for unsafe employers (page 28).

We also assessed the implementation status of the 16 recommendations contained in the Limited Scope Performance Audit of the Division of Workers' Compensation (DWC). Of these recommendations, DWC implemented six, partially implemented three and has not implemented seven. The recommendations not implemented relate to post implementation reviews of new data processing systems

(page 5), automation of compensation check preparation (page 8), creation of suspense files and automation of the reserve process (pages 9 and 12), file management (page 14), maintenance of historical reserves data (page 13), interest on overdue premiums (page 15), and data processing system security (page 16).

#### UNEMPLOYMENT INSURANCE ASSESSMENTS

In accordance with section 39-51-404(4), MCA, the department collects an assessment on wages subject to unemployment insurance taxes (CFDA #17.225). According to this statute, the department is to deposit this money in the Special Revenue Fund for use as appropriated by the legislature. In the prior fiscal years 1983-84 through 1987-88 appropriation bills, the legislature allowed the department to use these funds only if federal funding for job services was below specified amounts. Through fiscal year 1987-88, the department had not used the money for job service offices. In September 1988, the department received a budget amendment to spend \$350,000 of these funds to support job service offices. The statute further states any moneys not appropriated by the legislature be transferred to the U.S. Unemployment Trust Fund in Washington, D.C.

The department initially deposits these assessments in a bank account outside the state treasury and records it in the Expendable Trust Fund. Periodically, the department transfers both the assessments and interest earned on the assessments from the bank account to Washington, D.C. The department then uses these funds to pay unemployment benefits. The procedure used by the department understates Special Revenue Fund revenue by the amount of assessments collected and transfers out by the amount transferred to the trust fund. It also overstates revenue and understates transfers in the Expendable Trust Fund by the amount of moneys transferred from the Special Revenue Fund. The table below shows the amount of assessments collected since the implementation of this statute, the interest earned on the moneys before transfer to Washington, D.C., the amount transferred to Washington, D.C., and the balances which had not been transferred to Washington, D.C. at June 30, 1988.

TABLE 1

UNEMPLOYMENT INSURANCE ASSESSMENTS

| <u>Fiscal<br/>Year</u> | <u>Assessments<br/>Collected</u> | <u>Interest<br/>Income</u> | <u>Transferred<br/>to<br/>Washington DC</u> | <u>Balance at<br/>June 30</u> |
|------------------------|----------------------------------|----------------------------|---------------------------------------------|-------------------------------|
| 1983-84                | \$ 1,425,199                     | \$ 18,911                  | \$1,420,858                                 | \$ 23,852                     |
| 1984-85                | 1,981,841                        | 35,898                     | 1,985,852                                   | 55,139                        |
| 1985-86                | 2,342,560                        | 62,026                     | -0-                                         | 2,459,725                     |
| 1986-87                | 2,337,729                        | 169,418                    | 4,000,000                                   | 966,872                       |
| 1987-88                | <u>2,390,527</u>                 | <u>131,623</u>             | <u>1,269,657</u>                            | 2,219,365                     |
| Totals                 | <u>\$10,478,856</u>              | <u>\$417,876</u>           | <u>\$8,676,367</u>                          |                               |

Source: Compiled by the Office of the Legislative Auditor

The department does not have authority to deposit these assessments in a bank account outside the state treasury. Also, the law related to the assessments does not specify where the department should deposit the interest income on these assessments while the cash is in the Special Revenue Fund. In accordance with section 17-6-202(2), MCA, the department should deposit the interest income in the General Fund. Since fiscal year 1983-84, the department has deposited this interest in the U.S. Unemployment Trust Fund. As a result, the U.S. Unemployment Trust Fund has received \$417,876 of interest income belonging to the General Fund. Department personnel said federal law restricts payments from the U.S. Unemployment Trust Fund to benefit payments. However, the interest on assessments was deposited in the U.S. Unemployment Trust Fund in error. The department should recover these state moneys for the General Fund by either transferring the money back from the trust fund or reducing future transfers of this tax money to the trust fund.

RECOMMENDATION #1

We recommend the department:

- A. Deposit the assessments in the Special Revenue Fund as required by state law.
- B. Deposit \$417,876 and future interest earned on the assessments in the General Fund.

## WORKERS' COMPENSATION CLAIMS

The Division of Workers' Compensation (DWC) provides benefits to workers injured in the course of employment. Workers receive benefits to compensate for lost wages (compensation payments) and benefits to pay medical expenses for a work-related injury (medical payments). In fiscal year 1987-88, the division paid approximately \$63 million and \$27 million in compensation and medical benefits, respectively. In that year, the division processed 104,106 compensation payment warrants and 64,137 medical payment warrants. The following report sections discuss problems we noted in the payment of these benefits. We made recommendations to reduce medical payment errors and processing time in our prior financial-compliance audit. We also recommended that DWC automate compensation payments and create suspense files for rejected transactions. Although DWC concurred with these recommendations, DWC has not improved performance in these areas.

### Medical Payments

In fiscal year 1987-88, DWC implemented an automated medical payment system. The system was designed to automatically pay claims which met specific criteria; however, most claims did not meet the designed criteria and were not automatically paid. The computer programming could not match the description of the injury to the location and type of the medical service for most claims. As a result, 88 percent of the medical payment claims did not clear automatically through the system and were placed in the suspense file. A large backlog of unpaid claims accumulated and payment delays occurred. DWC bypassed certain system edits to pay the delayed claims, which caused the number of medical refunds and cancelled warrants to more than double over the fiscal year 1985-86 totals shown in our last audit report. Since February 1988, the claims examiners have manually reviewed all claims prior to payment.

In our limited scope performance audit we recommended DWC conduct a post implementation review of the new computer system; however, DWC did not conduct such a review. Such a review could have revealed the limits of the medical payment system design and prevented some of the costs involved with implementing the medical payment system. The medical payment system design did not achieve the automated claim payment performance anticipated by the department.

### Medical Payment Refunds

The Division of Workers' Compensation received 1,434 medical payment refunds during fiscal year 1987-88, a 210 percent increase over the 463 refunds recorded in fiscal year 1985-86. These refunds occur when providers or claimants refund medical payments they were not entitled to receive. We reviewed a random sample of 120 to determine the reasons for the refunds. The reasons indicate the division's control procedures over medical claim payment processing could be further improved. Of 120 refunds reviewed, 102 were the result of processing errors by DWC. The sample enabled us to classify the types of errors for all medical payment refunds received during fiscal year 1987-88. Of the 120 refunds reviewed, the following types of errors resulted in the refund of the payment:

|        |    |                                                                                                                                                                                                                                                                                                                                                                                     |
|--------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| TYPE 1 | -- | payments made twice due to conditions such as: multiple files, billings paid twice due to delays in processing payments, payments made from different forms (invoices and statements, for example), different payees for the same service (a doctor and his associated clinic may both bill the division), and payments for an injury later determined not to be employment related |
| TYPE 2 | -- | payments made to the wrong payee due to an incorrect number written on the encoding form                                                                                                                                                                                                                                                                                            |
| TYPE 3 | -- | payments made to the wrong payee due to data entry errors                                                                                                                                                                                                                                                                                                                           |
| TYPE 4 | -- | payments made on claims that had been denied or were denied at a later date                                                                                                                                                                                                                                                                                                         |
| TYPE 5 | -- | payments also made by the Department of Social & Rehabilitative Services (SRS)                                                                                                                                                                                                                                                                                                      |
| TYPE 6 | -- | payments made for the wrong amount because the invoice submitted was mathematically inaccurate or some charges on the invoice were not payable by the division                                                                                                                                                                                                                      |
| TYPE 7 | -- | payments refunded because the service was paid for by another party                                                                                                                                                                                                                                                                                                                 |
| TYPE 8 | -- | billing errors by payees or refunds of advances by payees (errors not due to division procedures)                                                                                                                                                                                                                                                                                   |
| TYPE 9 | -- | court ordered restitution of payments (error not due to division procedures).                                                                                                                                                                                                                                                                                                       |

We projected the results of the sample of 120 to all 1,434 refunds using statistical sampling methods. The following table illustrates the projected minimum percentage of the 1,434 refunds received in fiscal year 1987-88 that correspond to

each type of error. The minimum percentage of the 463 refunds received in 1985-86 is shown for comparative purposes.

TABLE 2

MEDICAL REFUND ERRORS

| <u>Description</u>     | <u>Error Type</u> | Minimum<br>Percentage<br>Fiscal<br><u>Year 1987-88</u> | Minimum<br>Percentage<br>Fiscal<br><u>Year 1985-86</u> |
|------------------------|-------------------|--------------------------------------------------------|--------------------------------------------------------|
| Duplicate payments     | Type 1            | 43.3%                                                  | 36.9%                                                  |
| Coding errors          | Type 2            | 6.8%                                                   | 21.2%                                                  |
| Data entry errors      | Type 3            | 7.5%                                                   | .6%                                                    |
| Denied claims paid     | Type 4            | 5.4%                                                   | 5.2%                                                   |
| Paid by SRS            | Type 5            | 0%                                                     | .6%                                                    |
| Invoice errors         | Type 6            | 0%                                                     | .6%                                                    |
| Paid by third-party    | Type 7            | 4.0%                                                   | 1.7%                                                   |
| Payee billing errors   | Type 8            | 10.3%                                                  | 11.7%                                                  |
| Court-ordered payments | Type 9            | .1%                                                    | 0%                                                     |

Source: Compiled by the Office of the Legislative Auditor

Medical Cancelled Warrants

In addition to the 1,434 refunds of medical payments, the division cancelled warrants for 1,083 medical payments during fiscal year 1987-88, a 326 percent increase over the 254 cancelled warrants in fiscal year 1985-86. Starting in January 1988, DWC documented the reason for the cancellation on the medical cancelled warrant log. Of the 967 cancellations classified by cause between January 1 and June 30, 1988, 539 were duplicate payments (Type 1) and 428 were payments to the wrong payee (Types 2, 3, or 8).

Summary

Our examination of medical refunds and cancelled warrants showed an overall increase in the number of payment errors. Payment delays, coupled with DWC bypassing the system edits to expedite the payment backlog, generated much of the observed increase in total refunds and cancellations. Duplicate payments increased between fiscal year 1985-86 and fiscal year 1987-88 reflecting the higher incidence of duplicate billing caused by payment delays. Data entry errors (Type 3) also increased significantly as a percentage of total errors and payment of denied claims (Type 4) increased slightly in fiscal year 1987-88 over fiscal year 1985-86. Medical

payment errors result in three types of additional costs to the division. First, staff time spent processing the refund payment could be spent processing original medical payments. The second cost to the division is the unknown amount of payments made in error that are not refunded by the payee. The third cost is interest income lost to the state fund for incorrect payments. Stronger controls are needed to prevent duplicate payments, data entry errors, and payment of denied claims. The division should consider implementing the following controls:

- To prevent duplicate payments, the DWC could:
  - 1) review the list of previous payments maintained in each file before a payment is approved,
  - 2) establish a policy to pay from only one type of form.
- To prevent payments on denied claims, DWC needs a more obvious method of noting the denial in the claim file.
- To reduce data entry errors, DWC could consider input edits and key verification procedures.

In addition to implementing stronger controls, the division should reduce the time required to process payments so that providers' second billings are not also paid.

#### **RECOMMENDATION #2**

**We recommend the department:**

- A. Implement control procedures to prevent medical payment errors.**
- B. Adopt procedures to reduce the time required to process medical payments.**

#### **Compensation Payments**

The Compensation Unit of DWC manually processes all compensation checks. Information obtained from the hard copy of individual files is manually typed onto checks. The Compensation Unit estimated it processed more than 400 checks per day, or in excess of 200 checks per employee per day, during fiscal year 1987-88.

Manual processing, combined with the high volume of compensation checks, increases potential for clerical errors and for delays in mailing checks. Because of the repetitive nature of bi-weekly compensation payments, use of a properly designed and controlled automated system could increase the speed and efficiency of check processing. Department management said the development of the automated compensation claims processing system, which had been anticipated during fiscal year

1987-88, was delayed because funds available for data processing system development had been used for the new medical payment system. A new implementation date for the compensation payment system has not been set. A department official indicated the division has proceeded with program development for automating payments to claimants where the total liability has been settled and equal payments continue over a long period of time. Department personnel said the department will start tests of this system enhancement in February 1989. In cases where examiners monitor each payment, department officials indicated automation will be more complicated.

### **RECOMMENDATION #3**

**We recommend the department automate the processing of compensation checks.**

### **Suspense Files**

DWC maintains a suspense file for rejected medical payments. The accounting staff has the responsibility to log rejected transactions and follow-up to ensure corrections are made. However, DWC does not have effective controls over rejected documents to ensure error corrections are made timely. During tests of the medical payment system, we reviewed 12 rejected medical transactions. Of these transactions, eight were not corrected and resubmitted for more than 45 days. The eight transactions remained in the suspense file from 46 to 201 days. Three of the eight rejected transactions, including the one outstanding for 201 days, had not been submitted for correction at the end of our audit work. Long delays such as these increase the likelihood of duplicate payments by DWC since payees may bill several times for the unpaid amount. In addition, the division may be subject to paying interest on the claim.

Data processing personnel said the medical payment system provided a report to each claims examiner listing all outstanding transactions for their claimants. Examiners could follow-up from these lists to ensure transactions are released from the system. However, claims examiners said the report is rarely used. The claims examiners indicated the report is too long and unwieldy to be useful because all medical payments are suspended and routed through claims examiners for manual processing. In addition, the report does not separate and identify problem claims from those routinely suspended for processing. The claims personnel further indicated the report had not been generated since May 1988. As a result, management and claims personnel could not efficiently track outstanding claims and medical

payments were delayed. DWC should consider generating reports listing transactions outstanding over 30 days for suspense codes, which indicate action by DWC is necessary, so DWC personnel can expedite the payment process.

In addition, DWC's computer programming has not provided for a suspense file for rejected reserve transactions, compensation payments, and medical payment financial adjustments, as recommended in our limited scope performance audit. Although DWC concurred with the recommendation, it has not been implemented. Division personnel indicated DWC has not had the time and manpower to write programming for creation of suspense files for these types of transactions. In the previous limited scope performance audit of the department, we identified a lack of internal control over rejected documents. Timely error correction and adequate documentation for management control were not assured. To ensure the completeness of DWC reserve reports and timeliness of recipient payments, errors on documents should be corrected as quickly as possible.

#### **RECOMMENDATION #4**

**We recommend the department:**

- A. Ensure the DWC data processing systems provide a suspense file for reserve transactions, compensation payments, and medical payment financial adjustments.**
- B. Implement control procedures to decrease the processing time of rejected medical payment documents.**

#### **FULL FUNDING DEFICIENCY**

Actuarial projections for the State Compensation Insurance Fund (SCIF) disclosed a full funding deficiency of approximately \$157.3 million at June 30, 1988. A funding deficiency exists when the assets of the fund at a particular date are not adequate to pay the future costs of all liabilities incurred as of that date. Under normal operations, each year's premium should be adequate to provide for all present and future payments of all benefits incurred during that year, whether or not reported, with a margin for contingencies. Whenever a funding deficiency occurs, future premiums need to be drawn upon to satisfy the existing liabilities of the fund. According to section 39-71-2304(2), MCA, DWC is required to set premium rates so "the industrial insurance program shall be neither more nor less than self-supporting." Section 39-71-2304(5), MCA, also requires DWC to set premium rates at a level sufficient to fund the program, including administration, benefits and adequate

reserves. The existence of an unfunded liability indicates DWC has not set premium rates in past periods sufficient to make the SCIF self-supporting.

In our prior financial-compliance audit report, we recommended DWC set rates to ensure the SCIF is self-supporting. DWC concurred with the recommendation, but emphasized that no Montana insurer has been able in recent years to accurately predict costs and thus establish adequate premium levels in the volatile environment of workers' compensation in the state. DWC attributed the deficiency to rapid changes in the benefit structure rather than improper rate making procedures. The consulting actuary employed by DWC indicated it is impossible to predict the exact cost of individual claims, to foresee increases in hospital and medical expense charges, and to evaluate the extent to which more liberal benefit payments may be granted to persons disabled in previous years or their dependents. Therefore, it is necessary to revise the estimates each year and, if necessary, to call upon either premium income, current investment income, or favorable experience to offset such an unanticipated increase in benefit cost.

On July 1, 1987, DWC issued new rates for the SCIF. In addition to these policy premium increases, the legislature enacted a .3 percent tax on payrolls for four years to help pay the unfunded liability. When calculating the fiscal year 1987-88 rates, DWC used an estimate that was lower than the amount calculated by the actuary for the unfunded liability and a 20 percent decrease in benefits from cases occurring after July 1, 1987. The actuary estimated an increase in the value of liabilities from claims related to cases prior to July 1, 1987. This increase, netted with a favorable experience in fiscal year 1987-88, resulted in an \$8.1 million increase in the unfunded liability from fiscal year 1986-87.

In calculating the revenue requirements for fiscal 1988-89 rates, which increased an average of 3.1 percent from fiscal year 1987-88, DWC used a similar assumption concerning benefits and the June 30, 1987 full funding deficiency amount of \$149.2 million from the fiscal year 1986-87 actuarial report. However, the DWC calculation assumed full funding of the deficiency in ten years, rather than the nine years remaining in the original ten year period. As a result, the premium collections from the increased rates, along with revenue from the payroll tax and investment earnings, are not sufficient to meet the DWC objective of fully funding the deficiency by June 30, 1997. We determined an additional 1.8 percent increase in the average rate would have been necessary to amortize the liability over the nine remaining years of the ten-year period. The department used the best available estimate of the unfunded liability amount when setting fiscal year 1988-89 rates.

Had the actuarially estimated value of \$157.3 million at June 30, 1988 been used, rates would have increased another 1.4 percent.

#### **RECOMMENDATION #5**

**We recommend the department implement procedures in the rate setting process to ensure the SCIF is self-supporting in compliance with state law.**

#### **12 YEAR REPORT**

DWC prepares a report of the past 12 years of claim experience of the SCIF. The 12 Year Report represents an accumulation of data relating to medical and compensation benefit payments and the reserves established to account for those payments. The report is divided into three sections: 1) compensation, medical benefits and reserves by disability code, 2) compensation and medical benefits paid, and 3) medical benefits paid by type of service. The fund's actuary uses the 12 Year Report in conjunction with other information to make projections relating to the actuarial soundness of the SCIF.

#### **Reserve Process Automation**

The benefit payment amounts shown on the 12 Year Report provide payment history data used in setting reserves. Reserves are an important factor in calculating future premium rates. Under the new computer system, the reserve analyst establishes reserves through direct data entry. The analyst examines each new claim file and usually establishes as a reserve an average based on SCIF experience for a given type of injury. We noted DWC does not document its basis for case reserve amounts that are exceptions to the average reserve. Documentation of deviations from the average reserve helps ensure the accuracy of data input, and is necessary for training and reviewing unusual situations. Also, any medical bills attached to a new wage compensation claim file are delayed from entering the payment process until the reserve analyst establishes the reserve.

According to DWC personnel, documentation of deviations would require changes in programming and DWC lacks staff time to make these changes. However, reserve analysts would have more time for reviews and documentation of changes in estimates if time spent in initial input of reserves were reduced. The department could save staff time and establish consistent reserves for cases with similar characteristics by programming the computer to automatically set the average reserves for all new claims without data entry. The reserve analyst could then review cases

as necessary to refine the reserve estimate. Because of the integrated system used by DWC, we could not practicably estimate the cost of automating the initial reserve process. DWC concurred with our recommendation related to reserve process in the prior limited scope performance audit but has not implemented it.

#### **RECOMMENDATION #6**

**We recommend the department:**

- A. Automate the initial reserve process.**
- B. Ensure the reserve analyst documents changes in reserve estimates.**

#### **Historical Reserve Data**

Currently, the division does not compile historical data on reserve amounts by injury type. Historical data could provide the reserve analyst with comparative criteria for use in evaluating and setting the estimated future reserves for specific injury types. Without this data, the reserve analyst has no method to compare, study, or determine the adequacy of the reserves. In our prior expanded scope audit report, we recommended the division include the capability to accumulate historical data on reserves in its new medical payment computer system. The new medical payment system compiles historical data by accident year just as the previous system did. Division personnel said no date has been set for development and implementation of programs to compile historical reserve data by injury type since these programs will be tied to the automation of the compensation check process.

#### **RECOMMENDATION #7**

**We recommend the department compile historical reserve data by injury type on its computer system.**

#### **Reconciliation of the 12 Year Report**

We determined DWC did not implement our prior audit recommendation to verify totals between input and output in processing the 12 Year Report. Division personnel stated the reconciliation of totals is possible but would be a lengthy process. Reconciliation procedures have not been adopted, but division personnel said the development of computer programs to perform the reconciliation is in progress. Good data processing controls include reconciliation of input and output totals to ensure completeness and accuracy of data throughout the processing cycle.

#### **RECOMMENDATION #8**

**We recommend the department continue development of procedures to reconcile totals of the 12 Year Report.**

#### **FILE MANAGEMENT**

DWC file room personnel are primarily responsible for controlling the circulation of files to all applicable sections in the State Insurance Fund Bureau and the storage of files not in use. Division management has not developed a formal schedule for removal of inactive files from the file storage area as recommended in our prior limited scope performance audit. DWC has relied on two key personnel to direct the file management activity, but one of these individuals recently left DWC. DWC has an informal policy of removing and microfiching some files each year, but the policy provides no established time limits or guidelines concerning which files should be microfiched. A formal file management policy would enable file room management to schedule file management activity and ensure the procedure continued even if staff turnover occurred. In addition, implementation of a file management policy would provide more available space for current operations.

#### **RECOMMENDATION #9**

**We recommend the department establish and implement procedures to ensure inactive files are microfiched for storage in a timely manner.**

#### **ADMINISTRATIVE ASSESSMENTS**

The Division of Workers' Compensation assesses self-insured employers, private insurance carriers, and the SCIF for the administrative costs related to enforcement and operation of workers' compensation coverage in Montana. DWC prepares an annual administrative assessment report to allocate the costs between the three provider groups. The assessments are based on the percentage of costs of services incurred by DWC for each provider group in the previous fiscal year multiplied by the budgeted administrative costs for the current fiscal year. Since cost data for the previous fiscal year is not available at the start of the current fiscal year, DWC estimates the assessments using cost allocations from the last year for which allocations are available.

DWC periodically transfers cash from the SCIF account in the Expendable Trust Fund to the administrative account in the Special Revenue Fund. The cash is then used to pay the cost of administering the SCIF, the self-insured employer plan and the private carrier plan. DWC subsequently bills self-insured employers and private carriers for their pro rata share of the assessments. DWC practice is to bill these parties after the administrative assessment report for the previous year is completed. In fiscal year 1987-88, the administrative assessment report was issued in April and assessment payments from self-insured employers and private carriers were received the following month. As a result, DWC paid administrative costs related to self-insured employers and private carriers with funds transferred from the SCIF account until the assessment moneys were received in May 1988. Upon receipt of the moneys, DWC transferred \$1 million from the administrative account to the SCIF. In substance, the SCIF provided an inter-entity loan to the administrative account for the administrative assessments billed to the other two workers' compensation insurance plans.

Section 17-2-107(2), MCA, permits the Department of Administration to authorize a transfer of unrestricted moneys from other accounts to cover temporary cash shortages. However, DWC did not seek authorization for such a transfer. According to a DWC official, DWC usually completes assessment reports in December and bills at that time. The official attributed the delay in fiscal year 1987-88 to time demands of implementing the medical payments system and the payroll tax.

Section 39-71-2327, MCA, requires interest on SCIF account moneys be deposited in the SCIF account. We estimate that the unrecorded inter-entity loan cost the SCIF \$37,800 in lost interest over the ten month period.

#### **RECOMMENDATION #10**

**We recommend the department:**

- A. Seek proper authorization for and record all inter-entity loans.**
- B. Develop a billing schedule that ensures consistent timing of collections from participants in the three insurance plans.**

#### **INTEREST ON OVERDUE PREMIUMS**

At the end of the quarter for which employers have received worker's compensation coverage, DWC requires a payroll report from each employer. Employers have 30 days to submit the payroll report. The division then calculates the premium due and sends out billings, allowing the employer 20 days to pay. If the

premium is not paid within the 20 days, DWC sends a 30-day cancellation notice. A reminder is sent if the employer still has not paid 14 days after the cancellation notice is sent. By the time this process has run its course, it is possible for an employer to have received almost six months coverage without paying a premium. Because of this, DWC does require that each employer initially remit a deposit approximately equal to one-half year's premium. However, DWC does not charge interest on overdue workers' compensation premiums. Section 39-71-2306, MCA, gives the state fund the authority to charge a rate comparable to rates charged by financial institutions in the state. In our expanded scope audit report, we recommended DWC charge interest on overdue premiums. DWC concurred with the recommendation but has not yet implemented it. Division management stated that interest is not charged because of the difficulty and cost of integrating a daily interest calculation in the accounts receivable computer system. Management also said an interest requirement could jeopardize earnings from policyholder cash deposits held by DWC. However, we determined policyholders are not required to deposit cash and most policyholders deposit certificates on which the policyholder receives the interest.

We performed an analysis of overdue premiums in fiscal year 1987-88 to estimate the amount of interest income lost to the state fund. We noted the department had sent delinquency notices totalling approximately \$12,866,433 during fiscal year 1987-88. Our analysis of interest income lost in fiscal year 1987-88 was based on the number of 30-day cancellation notices and 14-day reminders sent by the division in fiscal year 1987-88. Using a rate of 7.06 percent, which was the rate paid for investment in the state's Short Term Investment Pool in fiscal year 1987-88, we estimated the state fund lost interest income of approximately \$36,000.

#### **RECOMMENDATION #11**

**We recommend the department charge interest on overdue workers' compensation premium accounts.**

#### **ELECTRONIC DATA PROCESSING ACCESS**

The Department of Labor and Industry has several computerized processing systems. We performed electronic access controls tests on the Employer Tax and Unemployment Benefit systems used by the Unemployment Insurance Division (UID) (CFDA #17.225) and the Employer Premium and Payroll Tax systems used by the Division of Workers' Compensation (DWC).

Access controls are physical or electronic safeguards designed to ensure computer system resources are properly used. Access controls consist of input controls instituted by the department for each application as well as access controls governed by ACF2, the state's mainframe computer security software. During our audit, we noted areas in which security over the department's programs and data can be improved. The problems identified increase the potential for unauthorized use of department data and programs. The following sections discuss concerns found during our audit.

#### ACF2 Rules

We reviewed the department's ACF2 access rules at both UID and DWC. In our examination, we identified the following concerns:

- Some ACF2 rules, as written, allow all agency users full access to some critical applications. Such access allows users to change data and programs. However, many of the users do not need full access to perform their assigned work. Among applications affected are the unemployment insurance check writing system used by UID and the medical payments system used by DWC.
- Two data files at the DWC are not protected by ACF2 because the file descriptions do not follow ACF2 naming conventions. The department relies on ACF 2 to provide security over these mainframe applications. In addition, DWC personnel could not identify all data files, as critical or non-critical by examining the files listed by ACF 2. As a result, we could not evaluate whether security rules for these files were adequate.
- Users outside the department have access to critical application programs and data. An input/output controller at the Information Services Division of the Department of Administration has full access to data. A programmer at the Information Services Division has access to both programs and data. These individuals should not need full access to the programs or data.

The department should ensure access to programs and data files is limited to those individuals authorized to process or maintain particular systems. In addition, section 39-51-603, MCA, specifically requires that certain information be kept confidential and access to it be restricted. When security rules permit users access in excess of the level required for their job, the potential exists for unauthorized changes to data stored in the electronic data processing system. Weakness in both data file and program security increases the likelihood that an unauthorized trans-action would not be detected.

## Terminations

Active identification numbers, both within the ACF2 and each division's separate access system, provide an opportunity for ex-employees to change, alter or destroy programs and data. When an individual terminates, the department should assign new identification numbers to the work stations. We tested a sample of 17 user identification numbers where the employee had either transferred to another division within the department or had terminated employment with the department. Of the 17 tested, we found five instances where the employees still had access to the department's data processing system after they were no longer employed by that division. Of these five, two worked at DWC and three worked at UID. Two of the terminated employees accessed the department's files after they were terminated using identification numbers. These two employees had privileges to access the unemployment benefit system subsequent to their termination date. The access by terminated employees occurred in one division which assigns the access codes to a work station rather than an individual. Division personnel stated, but could not document, that access gained by the terminated employees number was actually made by another division employee who performed job functions previously done by the terminated employees. The department's data processing security officer said a formal notification of employee termination from the personnel officer would enable access to the system to be ended in a timely manner.

## Password Security

Passwords used for computer access are a security device to limit access to an individual. We identified three instances where department personnel shared passwords.

1. The system security officer allowed another department programmer to use his password.
2. A programmer shared a password with a systems analyst.
3. A researcher used the password assigned to a terminated employee.

The department, excluding the Division of Workers' Compensation, does not have policies or procedures disallowing the use of shared passwords. Department personnel said that employees sometimes shared passwords so that tasks could be performed if an individual were absent. To maintain access control and personnel accountability, the department should require employees to protect their individual passwords.

Access rules should be written granting access, if necessary, to back-up personnel to ensure tasks are completed.

In one bureau, logon identifications and passwords are assigned to terminals rather than individuals. The use of shared passwords to access critical applications prevents the department from holding certain individuals accountable for the access achieved. To strengthen access controls where passwords are assigned to terminals, the department should change these passwords whenever there is a change of employees in the user group.

### Security Officer Function

An ACF2 security officer can access all data and program files within an agency. Because the security officer has access to all system files, it is important that the security officer duties be segregated from other data processing functions. The department has a mainframe security officer and back-up security officer at both the Centralized Services Division and the Division of Workers' Compensation. We noted two instances where security officers' duties and other data processing tasks were not adequately segregated. First, security officers at both divisions are also programmers. Secondly, the security officer at Centralized Services and the back-up security officer at Workers' Compensation review the violation reports.

The security officer has access to all files. A programmer with this unrestricted access has greater potential for altering files on the system. When the security officer or back-up security officer reviews violation reports, there is not a cross-check on the reasonableness of violations reported by the system and the corrective action taken by the security officer. Review of violation reports by a manager not involved with the data processing function provides strong segregation of duties. Department personnel believed that security officers were the only people able to understand the violation reports. Department management did not consider the potential problems caused by designating a programmer as security officer.

Although the security officer is responsible for implementing system security, monitoring the proper level of security should be the responsibility of the divisions' management. Management should direct the security officer to implement the proper levels of access and the items to be monitored on the violation reports to develop guidelines to ensure system security is maintained. Review of violation reports by a manager outside of the data processing function provides additional assurance over access security.

## **RECOMMENDATION #12**

**We recommend the department:**

- A. Restructure ACF2 rules to limit computer access to the level job duties require.**
- B. Implement procedures to ensure system access is cancelled for terminated employees.**
- C. Develop and implement procedures to protect password security.**
- D. Segregate incompatible job duties in the EDP function.**

## **INTERNAL CONTROL**

The existence of internal controls is an integral part in any organization's ability to safeguard assets, verify accuracy and reliability of accounting and management data, and promote efficiency. The following five report sections and the section on electronic data processing controls discussed above address internal control weaknesses we noted that compromise the safeguarding of department assets.

### **Unemployment Tax**

The department receives wage reports and unemployment insurance payroll taxes from employers on a quarterly basis (CFDA #17.225). These payments are based on wages paid by the employer during the quarter. We identified several situations where better segregation of duties among employees could improve internal controls over unemployment tax receipts:

- The cashier prepares adjustments to data on the UI tax contributions system. As a result, the cashier has both control of tax payments and related recordkeeping duties. When one employee performs both of these functions, the risk exists of using the payment for personal gain and adjusting the records to cover up that fact. Although department procedures require a review of the cashier's adjustments by a supervisor, we found no documentation that the supervisor actually reviewed the adjustments.
- Some employers submit quarterly wage reports on computer tapes that have non-standard formats. Before the programmers run these employer wage record tapes, the department's programmers must alter the tape formats so the information can be run on the department's system. Since programmers are usually aware of the details in an application program, the department should not have the programmers operating the system. This would prevent programmers from being able to circumvent certain software controls.
- A secretary and a clerk have "write" access to screens on the unemployment insurance tax system that are used to enter employers

quarterly reports, record payments received from employers, make adjustments, and change tax rates and wages. Both employees also receive mail containing quarterly reports and handle payment checks prior to restrictive endorsement. Again, these employees have both control of assets and recordkeeping duties.

The department could adequately segregate duties with existing personnel.

#### **RECOMMENDATION #13**

**We recommend the department ensure adequate segregation of duties among employees administering unemployment taxes.**

#### **Check Endorsement**

We noted the department did not restrictively endorse checks received in payment for unemployment (CFDA #17.225) and workers' compensation insurance upon initial receipt. The department does not restrictively endorse unemployment checks until it verifies the transaction and determines the amount due is proper. At UID, the checks cannot be run through an endorsement machine because they are attached to the employer statements. It is DWC's policy to attach each check to a receipt. State policy requires, and our prior audit recommended, the department restrictively endorse checks upon initial receipt. The department should list the checks received or indicate on the statement payment was received, detach the checks from the statements, and endorse the checks. Although both divisions indicated the checks are kept in a locked file cabinet each night, checks are less susceptible to loss or theft when endorsed promptly.

#### **RECOMMENDATION #14**

**We recommend the department restrictively endorse checks upon initial receipt.**

#### **Check Custody and Recordkeeping**

Unemployment (CFDA #17.225) and workers' compensation benefit checks are sometimes returned to the department as undeliverable. The checks are kept in locked drawers until a proper disposition is determined. A log of the checks in the drawer is also maintained. We noted that for each type of benefit, the same person is responsible for custody and recordkeeping for the checks. A similar condition was

identified in our prior audit report. When these two duties are not segregated, there is increased risk of misappropriation of checks and altering of the records.

In an unannounced audit of the undelivered unemployment benefits check drawer, we found 40 checks in the drawer. We observed two checks in the file that had not been recorded on the corresponding check log. We also noted three checks recorded on the check log were not in the drawer and no disposition of the checks had been documented. We saw two checks to one beneficiary in the file. Subsequent to our field work, the department developed a written policy to remedy this situation. However the procedures do not specify the frequency of supervisor review of the undelivered check file. Also, department supervisory personnel should periodically perform a comparison of the checks in the drawer to the log to ensure the two agree.

At DWC, one individual has responsibility for recording undeliverable checks and refunds and has custody of these checks. Although checks are logged daily, the checks are not always logged as they are received. The individual sometimes holds the list of checks and the checks for several days until the disposition of the check is determined and recorded on the claimant's file. With this procedure, the potential exists for checks to be lost or stolen. Internal control over these checks would be strengthened by separate personnel having physical custody and recordkeeping for the checks.

#### **RECOMMENDATION #15**

**We recommend the department strengthen controls over undelivered benefit and refund checks.**

#### **Supplies Inventory**

Adequate internal controls require the department to safeguard property against loss from unintentional and intentional errors or irregularities. Vendors deliver supplies, such as envelopes and blank checks, at the department's storage facility at the Records Management Bureau. Department personnel periodically transfer supplies from storage to the department building. On two different occasions, we observed 34 boxes of postage paid envelopes valued at \$21,250 in the stairwell near the department's loading dock. On another occasion we observed 24 cases containing 33,600 blank unemployment insurance benefit checks in the stairwell (CFDA #17.225). Department personnel indicated that such shipments often remain in the stairwell overnight until employees responsible for the items take possession of them. We also noted the department stores some supplies inventories

in the basement hallway. Department personnel stated that supplies are stored in the basement hallway because the department lacks sufficient space in the building for supplies storage. Access to the stairwell and the hallway is not restricted.

**RECOMMENDATION #16**

**We recommend the department develop and implement procedures to ensure physical security of supplies inventory.**

**Contracted Services**

The department contracts for certain services with outside vendors. The department did not have a written contract for two of thirteen payments to contractors made by DWC. Proper support for contract payments should include a written agreement specifying the service performed. In one instance, the payment was to an entity with which DWC has done business in the past without formal written agreement. In the other case, agency personnel could not locate the contract. The department should develop procedures to ensure contracted service payments are supported by written agreements.

**RECOMMENDATION #17**

**We recommend the department develop procedures to ensure contract expenditures are supported by written agreements.**

**STATE COMPLIANCE**

During our audit we tested compliance with state laws and regulations related to the operations of the department. We noted several instances where the department did not comply with provisions of state law. These instances are discussed in the following report sections. The finding, related to advanced rate assessments, was discussed in previous audit reports.

**Accounting Records**

Financial information of the department is used by department officials and legislators to manage and establish funding levels for the department. The department uses the Statewide Budgeting and Accounting System (SBAS) to record its financial activity. Section 17-1-102(4), MCA, indicates "all state agencies, . . . shall input all necessary transactions to the accounting system . . . before the accounts

are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable for in accordance with generally accepted accounting principles (GAAP)."

We noted the following instances where the amounts the department recorded on SBAS did not comply with state law:

1. The department did not record \$116,153 in equipment purchased and recorded \$82,102 of buildings as equipment on the state's system during fiscal year 1986-87. State accounting policy requires the department to record fixed assets on the accounting system concurrently with the recording of the expenditures and to properly classify its assets.
2. The department recorded a prepaid expense for an expenditure transaction until it established a responsibility center. When department personnel cleared the prepaid expense account to record the expenditures, they improperly charged a prior year expenditure. As a result, fiscal year 1987-88 year expenditures were understated and fiscal year 1986-87 expenditures overstated by \$11,274 in the Special Revenue Fund.
3. The department completed payments on two bond issues held by the Public Employees Retirement System in fiscal year 1987-88. However, it had \$126,310 in bonds payable recorded in its accounting records at June 30, 1988. The department should remove the debt.
4. The department recorded activity relating to Centralized Services Division in the Internal Service Fund in fiscal year 1987-88. According to state policy, the department should record activity such as fixed assets, depreciation expense, and compensated absence liability in the Internal Service Fund.
5. The department records certain federal unemployment benefit and allowance (FUBA) payments as grants expenditures rather than benefits and claims as other unemployment payments are coded (CFDA #17.225). The department recorded FUBA expenditures of \$132,863 and \$66,401 for fiscal years 1986-87 and 1987-88, respectively. For consistency, the department should record these expenditures as benefits and claims.
6. The department classified interest earnings on the state's unemployment insurance balance in the U.S. Unemployment Trust Fund as federal assistance rather than as interest earnings (CFDA #17.225). In addition, the department classified reimbursements of benefits paid to federal employees as employer contributions rather than as federal assistance. As a result the department understated interest earnings revenue by \$2,267,646 and \$3,362,571 and overstated employer contributions revenue by \$2,670,000 and \$2,705,000 for fiscal years 1986-87 and 1987-88, respectively. Federal assistance revenue in the Expendable Trust Fund was understated by \$402,354 in fiscal year 1986-87 and overstated by \$657,571 in fiscal year 1987-88. In addition, we qualified our opinion on the Schedule of Changes in Fund Balances (page 36), the Schedules of Budgeted Revenue & Transfers In - Estimate and Actual (pages 37-38), and the Schedule of Revenues, Expenditures, & Transfers, State Compensation Insurance Fund and Unemployment Insurance Fund (page 41).
7. We noted the department had four accounts with federal funds that had fund balances. The majority of federal funds affected involve the Job Training

and Partnership Act (CFDA #17.250), Unemployment Insurance Base (CFDA #17.225) and Wagner-Peyser (CFDA #17.207). State accounting policy requires agencies to accrue as revenue money owed by the federal government and to defer recording revenue for federal cash received in excess of expenditures. As a result a net overstatement of \$22,966 and a net understatement of \$180,173 in federal assistance revenue in the Special Revenue Fund for fiscal years 1986-87 and 1987-88 respectively, occurred.

8. The department did not record the liability of the State Compensation Insurance Fund on SBAS in the Expendable Trust Fund. The liability consists of the present value of payments related to claims that have already been incurred. Since payment is probable and the amount of payments is estimable, the liability should be recorded on the state's accounting records at its most current estimated value. The consulting actuary employed by SCIF estimated the liability at \$206.4 million as of June 30, 1988. As noted in the auditor's opinion on page 34, the fund balance of the department for the Expendable Trust Fund should be reduced by the amount of the unrecorded SCIF liability.

Without all financial activity recorded on the state's accounting records, the quality, consistency, and comparability of the resulting financial information is affected. Department personnel cited human error as the reason for year-end balance and accrual misstatements.

#### **RECOMMENDATION #18**

**We recommend the department establish procedures to ensure the financial activity recorded in SBAS is in accordance with generally accepted accounting principles.**

#### **Allowance for Doubtful Accounts**

The department established an allowance for doubtful accounts for unemployment insurance receivables at fiscal year-end 1986-87 as recommended in our previous audit report (CFDA #17.225). When recording the allowance, department personnel incorrectly reduced current year revenue by the total estimated bad debt at June 30, 1987. According to state accounting policy, the department should record an expenditure when establishing the allowance account. As a result of the method used by the department to establish the allowance, fiscal year 1986-87 revenues, expenditures and prior year expenditures were understated by \$2,842,752, \$287,508 and \$594,637 respectively, in the Expendable Trust Fund. In addition, fiscal year 1986-87 expenditures were understated by \$355,237 in the Special Revenue Fund because the allowance related to penalty and interest receivable was recorded in the wrong fund.

When the department wrote off uncollectible receivables in fiscal year 1987-88, it incorrectly reduced revenue. The procedure understated revenue by \$263,963 in the Expendable Trust Fund. According to state accounting policy, uncollectible receivables should be written off against the established allowance account. The department also transferred \$282,433 of unemployment insurance receivables to the Department of Revenue as uncollectible. It did not remove these receivables from its accounting records.

The department recorded uninsured employers accounts receivable of \$736,331 and notes receivable of \$104,037 in the Expendable Trust Fund at June 30, 1988. Department management estimated that only 51 percent of the accounts receivable and 80 percent of the notes receivable were collectible. Since the department did not record an allowance for doubtful accounts, net accounts receivable and notes receivable were overstated by \$360,802 and \$20,807, respectively, on the state's accounting records.

#### **RECOMMENDATION #19**

**We recommend the department record allowance for doubtful accounts according to state policy.**

#### **Timely Deposits**

We noted department personnel do not deposit all unemployment (CFDA #17.225) or workers' compensation tax receipts on a timely basis. Department procedures specify that unemployment checks be attached to employer statements until the payment amounts are verified. According to department officials it may take up to three days before a check is ready for deposit. UID personnel said the three day period meets the federal deposit regulations applicable to unemployment insurance operations. However, the department should list the checks received, detach the checks from the statements and deposit the cash. The department can then process the statements. In addition, we noted DWC deposited payroll tax receipts on an average of approximately 11 days after initial receipt of the moneys. According to DWC personnel, the division did not receive additional funding or FTE for processing payroll tax collections. DWC management set processing payroll reports, billing statements, and premium collections as a higher priority because of the higher dollar amounts collected in premiums.

As a result, the department is not in compliance with section 17-6-105(6), MCA. This law requires all moneys received each day be deposited when the

accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. The law was designed to minimize the risk of loss of undeposited collections and to maximize investment income. We estimated the department lost between \$14,942 to \$27,404 in interest income between October 1987 and February 1988 because Workers' Compensation payroll tax receipts were not deposited on a timely basis. We also made a recommendation concerning timely deposits of unemployment insurance taxes in our previous audit. The department concurred with the recommendation.

#### **RECOMMENDATION #20**

**We recommend the department deposit receipts on a timely basis in accordance with state law.**

#### **Abandoned Property**

The department established an account in the Agency Fund for moneys held for participants in the Comprehensive Employment and Training Act (CETA) program (CFDA #17.232). Even though the CETA program was discontinued in 1983, \$2,843 remains in the Agency Fund, unclaimed by the participants. According to section 70-9-207, MCA, all intangible personal property held for the owner by public authority of the state that has remained unclaimed for more than five years is presumed to be abandoned. Section 70-9-301, MCA, requires the department to turn over abandoned property to the Department of Revenue. State law specifies procedures available to the Department of Revenue to recover abandoned property for the state. By turning the abandoned funds over to the Department of Revenue, the department can initiate recovery of the abandoned CETA moneys.

#### **RECOMMENDATION #21**

**We recommend the department transfer abandoned property to the Department of Revenue in accordance with state law.**

#### **Insurance Payments Documentation**

Section 39-71-306, MCA, requires every self-insured employer and private insurance carrier to file with DWC duplicate receipts of payments made to injured workers or beneficiaries. DWC does not require these employers and carriers to submit copies of payment receipts. However, employer's and carriers do submit a

monthly report to DWC of claim payments made to insured workers. Department management said maintenance of receipt files was not an efficient use of space or time since DWC has sufficient information from the monthly reports to track accident costs.

#### **RECOMMENDATION #22**

**We recommend the department:**

- A. Require duplicate receipts of payments made to workers' compensation recipients as required by state law; or**
- B. Seek legislation to change the statute requiring receipts.**

#### **School Census Report**

The Commissioner of Labor does not compile a list of children under 16 years of age with the names of parents or guardians as required by section 41-2-112, MCA. The law specifies that the County Superintendent of Schools in each county should have a census of children to provide the commissioner. Department management said that the department had relied on the Office of Public Instruction (OPI) for such information until OPI changed the method of documenting school population 15 years ago. Department personnel were not aware of the specific legal requirement for the census and know of no specific use for the data. In a discussion with one County Superintendent, we learned that neither the county nor the school districts compile the information. The superintendent indicated that compilation of the additional information would be costly. Since the law was enacted in 1907, no one has compiled or used the required information in 15 years, and the department knows of no specific use for the data, the department should seek legislation to repeal the requirement for compiling census reports.

#### **RECOMMENDATION #23**

**We recommend the department seek legislation to repeal the requirement for compiling census reports.**

#### **Advanced Rate Assessments**

Section 39-71-2305, MCA, requires DWC to assess a 50 percent rate increase (advanced rate) to employers whose workplace is considered "unduly dangerous." The advanced rate assessment is to be made if the workplace is unduly dangerous in

comparison with other like workplaces and the employer has not implemented the safety provisions of the Montana Safety Act.

We found in our current and previous two audits that the advanced rate was never assessed. Division personnel at that time stated that no administrative rules existed to provide criteria for determining whether one workplace was more dangerous than other similar workplaces. The division concurred with our recommendation to formulate rules. We found during the current audit that the department has not adopted written criteria for designating a workplace as "unduly dangerous."

DWC has implemented an incentive program for employers with a high experience loss ratio compared to like employees. DWC provides these employers with a Basic Loss Control Manual. Employers that implement procedures in the manual qualify for a five percent reduction in premiums for two years. DWC management contends that the statute is designed to promote safety and the incentive program implemented by DWC promotes safer operations. DWC management said employers that do not make the safety improvements may be assessed the advanced rate. The statute requires DWC to assess the advanced rate on "unduly dangerous" workplaces. DWC should define "unduly dangerous" workplaces and assess the advanced rate as required by law.

#### **RECOMMENDATION #24**

**We recommend the department:**

- A. Formulate a written policy defining "unduly dangerous" workplaces.**
- B. Enforce state law regarding advanced rate assessments for "unduly dangerous" workplaces.**

#### **Cash Management**

The department receives funds from the federal government under various grant agreements. The Human Rights Division receives two grants from the U.S. Department of Housing and Urban Development (HUD) (CFDA 14.401). One HUD agreement has a quarterly payment schedule and the other HUD grant has monthly payments. The department also receives one grant from the Equal Employment Opportunity Commission (EEOC) which specifies a quarterly payment schedule (CFDA #30.002). We identified two situations where the department's cash management practices could be improved. We noted an instance where the department delayed receiving payment a month by not requesting payment before the

federal cutoff deadline. In addition, the department requested only one payment in the first six months of fiscal year 1987-88 for the HUD grant with monthly payment provisions.

The department received a \$50,000 inter-entity loan from the General Fund to the Special Revenue Fund to cover the costs of the HUD and EEOC grants prior to reimbursement. However, the department initially charges the expenditures associated with these grants to the General Fund. When the department receives reimbursement, it transfers the expenditures from the General Fund to the Special Revenue Fund. Since the department initially pays the costs from the General Fund, the inter-entity loan to the Special Revenue Fund account exceeds the amount required to pay grant expenditures charged directly to that account. The department should initially charge allowable expenditures to the Special Revenue Fund. Based on our analysis, we estimate the department's excess loan balance, over a nine month period, cost the state's General Fund \$1,253 in lost interest income.

Because the department requests money on a reimbursement basis which is for a period of one month or longer, there is a time lag between the expenditures and the subsequent federal reimbursements which are funded with state money. The department should have cash management procedures to ensure timely drawdowns of federal grant moneys to cover department expenditures for these grants. In addition, section 17-2-108, MCA, requires agencies to use non-general fund moneys whenever possible before using General Fund moneys. Improved cash management procedures will help the department spend non-general fund money first as required by state law.

#### **RECOMMENDATION #25**

**We recommend the department adopt cash management procedures to ensure timely drawdowns of federal grant funds.**

#### **FEDERAL COMPLIANCE**

The department spent approximately \$55 million in federal assistance moneys during the two fiscal years under audit. Federal assistance is provided under such grants as the Unemployment Insurance base (CFDA #17.225), the Wagner-Peyser Act (CFDA #17.207), the Job Training Partnership Act (JTPA) (CFDA #17.250).

### Audits of JTPA Providers

During our review of the department's financial monitoring of the JTPA program, we evaluated the department's monitoring of the contract audits on its subgrantees. According to JTPA regulations, the department is responsible for assuring audit requirements of its subgrantees are met and each audit is conducted in accordance with applicable audit standards. During our audit, we found the department did not have review procedures to ensure contract audits of the JTPA providers met scope and reporting standards. Without adequate monitoring procedures, the department risks noncompliance with federal requirements related to audits. Agency personnel are developing an audit monitoring checklist to enable the department to review and document compliance with audit standards.

#### **RECOMMENDATION #26**

**We recommend the department continue to develop and implement procedures to review subgrantee audit reports for compliance with audit standards.**

### JTPA Program Expenditures

The department prepares periodic expenditure reports for its federal grants. We reviewed the fiscal years 1986-87 and 1987-88 JTPA Title IIA expenditure reports. We noted unreconciled differences of \$2,648 and \$2,852 between the federal report and the state's accounting records for fiscal years 1986-87 and 1987-88, respectively. Federal regulations require recipients of federal grant funds maintain an accounting system that identifies the source and use of federal funds received by the recipient. In addition federal reports should be supported by the accounting records. The department should establish procedures to ensure the federal reports are supported by the state's accounting records.

#### **RECOMMENDATION #27**

**We recommend the department adopt procedures to ensure federal financial reports are supported by the state's accounting records.**

### Timely Financial Reporting

We reviewed the department's Unemployment Insurance federal financial reports to ensure the department submitted the reports in accordance with federal regulations. These regulations specify that the department must submit an

Unemployment Insurance Financial Transactions Summaries report for each month within 10 working days of the end of the month. Of the 15 reports tested, we noted 4 reports were submitted late.

Department personnel indicated a reduction of two positions in the benefits bureau in fiscal year 1986-87 contributed to late submissions in the first half of that year and a high number of protested rate notices in fiscal year 1987-88 diverted staff time from the reporting function.

**RECOMMENDATION #28**

**We recommend the department ensure federal reports are submitted in a timely manner.**

AUDITOR'S OPINION LETTER AND AGENCY FINANCIAL SCHEDULES

## SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

The adverse opinion on the Schedule of Changes in Fund Balance indicates the reader of the financial schedule should use caution when using the financial information from this schedule. The schedule is misstated because the department did not record the unfunded workers' compensation liability in the Expendable Trust Fund (paragraph four of the opinion letter) and improperly recorded revenue in the Expendable Trust Fund instead of the Special Revenue Fund (paragraph six of the opinion letter).

The qualified opinion on the Schedules of Budgeted Revenue and Transfers In - Estimate and Actual and the Schedule of Revenues, Expenditures and Transfers - State Compensation Insurance Fund and Unemployment Insurance Fund indicates the reader of the financial schedules should use caution when using the financial information from these schedules. The schedules are misstated because the department misclassified revenues in the Expendable Trust Fund (paragraph five of the opinion letter) and improperly recorded revenue in the Expendable Trust Fund instead of the Special Revenue Fund (paragraph six of the opinion letter).

The opinion on the other financial schedules presented indicates the schedules are fairly stated in all material respects and the user of this SBAS information can rely on the information presented.



STATE OF MONTANA  
**Office of the Legislative Auditor**

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Performance Audit

INDEPENDENT AUDIT REPORT

We have audited the financial schedules of the Montana Department of Labor and Industry for each of the two fiscal years ended June 30, 1987 and 1988 as shown on pages 36 through 45. The information contained in these schedules is the responsibility of the department's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the department's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

The department's Division of Workers' Compensation administers the State Compensation Insurance Fund. The financial activity of the insurance fund is reported in the Expendable Trust Fund. The fund actuary has determined that at June 30, 1988, a full funding deficiency of \$157.3 million existed for the State Compensation Insurance Fund. The department did not record the liability for the amount of payments related to claims that have been incurred but not paid on the state's accounting records. As a result, Ending Fund Balance in the Expendable Trust Fund at June 30, 1988 is overstated by \$206.4 million. (See Note 6 to the financial schedules.)

The department misclassified revenue in the Expendable Trust Fund in fiscal years 1986-87 and 1987-88, respectively. The department recorded interest on Montana's balance in the U.S. Unemployment Trust Fund as federal assistance instead of investment earnings. In addition, the department recorded reimbursements of unemployment benefits paid to federal employees as premium contributions instead of federal assistance. As a result, investment earnings was understated by \$2,267,646

and \$3,362,571 and premium contributions was overstated by \$2,670,000 and \$2,705,000 in fiscal year 1986-87 and 1987-88, respectively. Federal assistance was understated by \$402,354 in fiscal year 1986-87 and overstated by \$657,571 in fiscal year 1987-88.

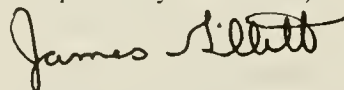
The department has recorded revenue from the job service tax in the Expendable Trust Fund instead of the Special Revenue Fund as specified in section 39-51-404, MCA. As a result, fund balance at July 1, 1986 in the Special Revenue Fund was understated and in the Expendable Trust Fund was overstated by \$2,459,725, respectively. Expendable Trust Fund revenue was overstated by \$2,507,147 and \$2,522,150, Special Revenue Fund revenue was understated by \$2,387,729 and \$2,390,527, and General Fund revenue was understated by \$169,418 and \$131,623 in fiscal years 1986-87 and 1987-88, respectively. Special Revenue Fund transfers out was understated and Expendable Trust Fund transfers in was understated by \$4,000,000 and \$1,269,657 in fiscal years 1986-87 and 1987-88, respectively. Ending fund balance was understated in the Special Revenue Fund and overstated in the Expendable Trust Fund by \$2,219,365 at June 30, 1988.

In our opinion, because of the effects of the matters discussed in paragraphs four and six, the Schedule of Changes in Fund Balances does not present fairly, in all material respects, the results of operation and changes in fund balances for the two fiscal years ended June 30, 1988, in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effect of the matter discussed in paragraphs five and six, the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual, and the Schedule of Revenues, Expenditures, and Transfers - State Compensation Insurance Fund and Unemployment Insurance Fund present fairly, in all material respects, the results of operations of the Department of Labor and Industry for the fiscal years ended June 30, 1987 and 1988, in conformity with the basis of accounting described in Note 1.

In our opinion, the Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budget and Actual for fiscal years 1986-87 and 1987-88 present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Labor and Industry for the fiscal years ended June 30, 1987 and 1988, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,



James Gillett, CPA  
Deputy Legislative Auditor

September 30, 1988

DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

|                                                 | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Funds</u> | <u>Debt<br/>Service<br/>Funds</u> | <u>Internal<br/>Service<br/>Funds</u> | <u>Expendable<br/>Trust<br/>Funds</u> |
|-------------------------------------------------|-------------------------|--------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| FUND BALANCE: July 1, 1986                      | \$ -0-                  | \$ (149,152)                         | \$ -0-                            | \$ -0-                                | \$ 84,195,611                         |
| ADDITIONS:                                      |                         |                                      |                                   |                                       |                                       |
| <u>Fiscal Year 1986-87</u>                      |                         |                                      |                                   |                                       |                                       |
| Budgeted Revenue & Transfers In                 | \$ 114,962              | \$34,669,700                         | \$260,803                         | \$ 906                                | \$ 62,992,949                         |
| Nonbudgeted Revenue & Transfers In              | 63,258                  | 67,058                               |                                   |                                       | 77,822,710                            |
| Prior Year Revenue Adjustments                  | 69                      | 657,008                              |                                   |                                       |                                       |
| Prior Year Transfer In Adjustments              |                         | 803                                  |                                   |                                       |                                       |
| Direct Entries To Fund Balance                  |                         | 4,211                                |                                   |                                       |                                       |
| Support From State of Montana                   | 895,714                 |                                      |                                   |                                       |                                       |
| Cash Transfer In                                |                         | 583,415                              |                                   |                                       |                                       |
| <u>Fiscal Year 1987-88</u>                      |                         |                                      |                                   |                                       |                                       |
| Budgeted Revenue & Transfers In                 | 276,232                 | 44,984,916                           | 167,680                           | 2,365,733                             | 57,862,894                            |
| Nonbudgeted Revenue & Transfers In              | 60,197                  | 43,245                               |                                   |                                       | 101,599,668                           |
| Prior Year Expenditure Adjustments              | 32,675                  | 199                                  |                                   |                                       |                                       |
| Prior Year Revenue Adjustments                  | 52                      | 13,260                               |                                   |                                       |                                       |
| Prior Year Transfer In Adjustments              |                         | (24,638)                             |                                   |                                       |                                       |
| Support From State of Montana                   | 1,543,792               |                                      |                                   |                                       |                                       |
| Cash Transfer In                                |                         | 583,903                              |                                   |                                       |                                       |
| Total Additions                                 | <u>2,986,951</u>        | <u>81,583,080</u>                    | <u>428,483</u>                    | <u>2,366,639</u>                      | <u>300,278,221</u>                    |
| REDUCTIONS:                                     |                         |                                      |                                   |                                       |                                       |
| <u>Fiscal Year 1986-87</u>                      |                         |                                      |                                   |                                       |                                       |
| Budgeted Expenditures & Transfers Out           | 1,061,309               | 34,410,238                           |                                   | 906                                   |                                       |
| Nonbudgeted Expenditures & Transfers Out        |                         |                                      | 260,803                           |                                       | 136,682,289                           |
| Prior Year Expenditure Adjustments              | 12,694                  | 196,243                              |                                   |                                       |                                       |
| Prior Year Transfer Out Adjustments             |                         | 3,076                                |                                   |                                       |                                       |
| Prior Year Expenditures                         |                         | 17,631                               |                                   |                                       |                                       |
| Nonbudgeted Prior Year Expenditure Adjustments  |                         |                                      |                                   |                                       | (307,934)                             |
| Nonbudgeted Prior Year Transfer Out Adjustments |                         |                                      | (40,779)                          |                                       | (2,273)                               |
| Cash Transfers Out                              |                         | 27,715                               |                                   |                                       |                                       |
| Prior Year Revenue Adjustments                  |                         |                                      | 40,779                            |                                       | 1,080,161                             |
| <u>Fiscal Year 1987-88</u>                      |                         |                                      |                                   |                                       |                                       |
| Budgeted Expenditures & Transfers Out           | 1,907,257               | 45,478,510                           |                                   | 2,366,834                             |                                       |
| Prior Year Expenditure Adjustments              | 5,691                   | 145,109                              |                                   |                                       |                                       |
| Prior Year Transfer Out Adjustments             |                         | 833                                  |                                   |                                       |                                       |
| Prior Year Revenue Adjustments                  |                         | 1,107,057                            |                                   |                                       | 254,452                               |
| Direct Entries to Fund Balance                  |                         | 109,005                              |                                   |                                       |                                       |
| Nonbudgeted Expenditures & Transfers Out        |                         |                                      | 167,680                           |                                       | 141,508,989                           |
| Nonbudgeted Prior Year Expenditure Adjustment   |                         |                                      |                                   |                                       | (13,852)                              |
| Nonbudgeted Prior Year Transfer Out Adjustments |                         |                                      |                                   |                                       | (25,471)                              |
| Total Reductions                                | <u>2,986,951</u>        | <u>81,495,417</u>                    | <u>428,483</u>                    | <u>2,367,740</u>                      | <u>279,176,361</u>                    |
| FUND BALANCE: JUNE 30, 1988                     | \$ -0-                  | \$ (61,489)                          | \$ -0-                            | \$ (1,101)                            | \$105,297,471                         |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the Notes to the Financial Schedules on pages 42 through 45.



DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

|                                      | <u>Licenses<br/>and<br/>Permits</u> | <u>Charges<br/>for<br/>Services</u> | <u>Fines<br/>and<br/>Forfeits</u> | <u>Other<br/>Financing<br/>Sources</u> | <u>Federal<br/>Indirect<br/>Cost<br/>Recoveries</u> | <u>Federal</u>        | <u>Miscellaneous</u>  | <u>Taxes</u>          | <u>Sale of<br/>Documents &amp;<br/>Merchandise</u> | <u>Contributions<br/>and Premiums</u> | <u>Total</u>          |
|--------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|----------------------------------------|-----------------------------------------------------|-----------------------|-----------------------|-----------------------|----------------------------------------------------|---------------------------------------|-----------------------|
| GENERAL FUND                         |                                     |                                     |                                   |                                        |                                                     |                       |                       |                       |                                                    |                                       |                       |
| Estimated Revenue                    |                                     |                                     |                                   |                                        |                                                     |                       | \$ 514,805            |                       |                                                    |                                       | \$ 514,805            |
| Actual Revenue                       |                                     |                                     |                                   |                                        |                                                     |                       | <u>276,232</u>        |                       |                                                    |                                       | <u>276,232</u>        |
| Collections Over<br>(Under) Estimate |                                     |                                     |                                   |                                        |                                                     |                       | <u>\$ (238,573)</u>   |                       |                                                    |                                       | <u>\$ (238,573)</u>   |
| SPECIAL REVENUE FUND                 |                                     |                                     |                                   |                                        |                                                     |                       |                       |                       |                                                    |                                       |                       |
| Estimated Revenue                    | \$32,250                            | \$1,295,385                         | \$450,000                         | \$6,637,983                            |                                                     | \$26,916,872          | \$ 1,603,346          | \$12,000,000          |                                                    |                                       | \$48,935,836          |
| Actual Revenue                       | <u>32,354</u>                       | <u>1,364,086</u>                    | <u>360,717</u>                    | <u>6,933,694</u>                       |                                                     | <u>25,206,227</u>     | <u>135,468</u>        | <u>10,952,370</u>     |                                                    |                                       | <u>44,984,916</u>     |
| Collections Over<br>(Under) Estimate | <u>\$ 104</u>                       | <u>\$ 68,701</u>                    | <u>\$ (89,283)</u>                | <u>\$ 295,711</u>                      |                                                     | <u>\$ (1,710,645)</u> | <u>\$ (1,467,878)</u> | <u>\$ (1,047,630)</u> |                                                    |                                       | <u>\$ (3,950,920)</u> |
| DEBT SERVICE FUNDS                   |                                     |                                     |                                   |                                        |                                                     |                       |                       |                       |                                                    |                                       |                       |
| Estimated Revenue                    |                                     |                                     |                                   |                                        |                                                     | \$ 169,000            |                       |                       |                                                    |                                       | \$ 169,000            |
| Actual Revenue                       |                                     |                                     |                                   |                                        |                                                     | <u>167,680</u>        |                       |                       |                                                    |                                       | <u>167,680</u>        |
| Collections Over<br>(Under) Estimate |                                     |                                     |                                   |                                        |                                                     | <u>\$ (1,320)</u>     |                       |                       |                                                    |                                       | <u>\$ (1,320)</u>     |
| INTERNAL SERVICE FUNDS               |                                     |                                     |                                   |                                        |                                                     |                       |                       |                       |                                                    |                                       |                       |
| Estimated Revenue                    |                                     |                                     |                                   |                                        | \$2,618,703                                         |                       |                       |                       | \$ 3,500                                           |                                       | \$ 2,622,203          |
| Actual Revenue                       |                                     |                                     |                                   |                                        | <u>2,365,733</u>                                    |                       |                       |                       | <u>-0-</u>                                         |                                       | <u>2,365,733</u>      |
| Collections Over<br>(Under) Estimate |                                     |                                     |                                   |                                        | <u>\$ (252,970)</u>                                 |                       |                       |                       | <u>\$ (3,500)</u>                                  |                                       | <u>\$ 256,470</u>     |
| EXPENDABLE TRUST FUNDS               |                                     |                                     |                                   |                                        |                                                     |                       |                       |                       |                                                    |                                       |                       |
| Estimated Revenue                    |                                     |                                     |                                   |                                        |                                                     | \$ 1,200,000          |                       |                       |                                                    | \$59,200,000                          | \$60,400,000          |
| Actual Revenue                       |                                     |                                     |                                   |                                        |                                                     | <u>3,362,571</u>      |                       |                       |                                                    | <u>54,500,323</u>                     | <u>57,862,894</u>     |
| Collections Over<br>(Under) Estimate |                                     |                                     |                                   |                                        |                                                     | <u>\$ 2,162,571</u>   |                       |                       |                                                    | <u>\$ (4,699,677)</u>                 | <u>\$ (2,537,106)</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the Notes to the Financial Schedules on pages 42 through 45.



DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN - ESTIMATE AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

|                                      | <u>Licenses and<br/>Permits</u> | <u>Charges for<br/>Services</u> | <u>Fines and<br/>Forfeits</u> | <u>Other<br/>Financing<br/>Sources</u> | <u>Federal<br/>Indirect<br/>Cost<br/>Recoveries</u> | <u>Federal</u>        | <u>Miscellaneous</u> | <u>Sale of<br/>Documents and<br/>Merchandise</u> | <u>Contributions<br/>and Premiums</u> | <u>Total</u>          |
|--------------------------------------|---------------------------------|---------------------------------|-------------------------------|----------------------------------------|-----------------------------------------------------|-----------------------|----------------------|--------------------------------------------------|---------------------------------------|-----------------------|
| GENERAL FUND                         |                                 |                                 |                               |                                        |                                                     |                       |                      |                                                  |                                       |                       |
| Estimated Revenue                    |                                 |                                 |                               |                                        |                                                     |                       | \$ 125,000           |                                                  |                                       | \$ 125,000            |
| Actual Revenue                       |                                 |                                 |                               |                                        |                                                     |                       | <u>114,962</u>       |                                                  |                                       | <u>114,962</u>        |
| Collections Over<br>(Under) Estimate |                                 |                                 |                               |                                        |                                                     |                       | \$ <u>(10,038)</u>   |                                                  |                                       | \$ <u>(10,038)</u>    |
| SPECIAL REVENUE FUND                 |                                 |                                 |                               |                                        |                                                     |                       |                      |                                                  |                                       |                       |
| Estimated Revenue                    | \$30,500                        | \$2,197,588                     | \$ 882,500                    | \$5,107,846                            | \$ 636,000                                          | \$23,541,011          | \$ 7,300             |                                                  |                                       | \$32,402,745          |
| Actual Revenue                       | <u>32,191</u>                   | <u>2,202,705</u>                | <u>1,305,535</u>              | <u>5,780,831</u>                       | <u>1,286,223</u>                                    | <u>24,059,481</u>     | <u>2,734</u>         |                                                  |                                       | <u>34,669,700</u>     |
| Collections Over<br>(Under) Estimate | \$ <u>1,691</u>                 | \$ <u>5,117</u>                 | \$ <u>423,035</u>             | \$ <u>672,985</u>                      | \$ <u>650,223</u>                                   | \$ <u>518,470</u>     | \$ <u>(4,566)</u>    |                                                  |                                       | \$ <u>2,266,955</u>   |
| DEBT SERVICE FUND                    |                                 |                                 |                               |                                        |                                                     |                       |                      |                                                  |                                       |                       |
| Estimated Revenue                    |                                 |                                 |                               |                                        |                                                     | \$ 350,000            |                      |                                                  |                                       | \$ 350,000            |
| Actual Revenue                       |                                 |                                 |                               |                                        |                                                     | <u>260,803</u>        |                      |                                                  |                                       | <u>260,803</u>        |
| Collections Over<br>(Under) Estimate |                                 |                                 |                               |                                        |                                                     | \$ <u>(89,197)</u>    |                      |                                                  |                                       | \$ <u>(89,197)</u>    |
| INTERNAL SERVICE FUND                |                                 |                                 |                               |                                        |                                                     |                       |                      |                                                  |                                       |                       |
| Estimated Revenue                    |                                 |                                 |                               |                                        |                                                     |                       |                      | \$ 3,500                                         |                                       | \$ 3,500              |
| Actual Revenue                       |                                 |                                 |                               |                                        |                                                     |                       |                      | <u>906</u>                                       |                                       | <u>906</u>            |
| Collections Over<br>(Under) Estimate |                                 |                                 |                               |                                        |                                                     |                       |                      | \$ <u>(2,594)</u>                                |                                       | \$ <u>(2,594)</u>     |
| EXPENDABLE TRUST FUND                |                                 |                                 |                               |                                        |                                                     |                       |                      |                                                  |                                       |                       |
| Estimated Revenue                    |                                 |                                 |                               |                                        |                                                     | \$ 5,500,000          |                      |                                                  | \$65,850,000                          | \$71,350,000          |
| Actual Revenue                       |                                 |                                 |                               |                                        |                                                     | <u>2,314,646</u>      |                      |                                                  | <u>60,678,303</u>                     | <u>62,992,949</u>     |
| Collections Over<br>(Under) Estimate |                                 |                                 |                               |                                        |                                                     | \$ <u>(3,185,354)</u> |                      |                                                  | \$ <u>(5,171,697)</u>                 | \$ <u>(8,357,051)</u> |

This schedule is prepared from the Statewide Budgeting & Accounting System. Additional information is provided in the Notes to the Financial Schedules on pages 42 through 45.



DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS-OUT BY OBJECT AND FUND-BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

|                                    | Job<br>Service      | Unemployment<br>Insurance | Commissioner<br>Centralized<br>Services | Employment<br>Relations | Employment<br>Policy | Human<br>Rights  | Job Training<br>Partnership<br>Act | Project<br>Work    | Workers'<br>Compensation<br>Administration | State<br>Insurance<br>Fund | Insurance<br>Compliance | Safety &<br>Health | Total               |
|------------------------------------|---------------------|---------------------------|-----------------------------------------|-------------------------|----------------------|------------------|------------------------------------|--------------------|--------------------------------------------|----------------------------|-------------------------|--------------------|---------------------|
| PERSONAL SERVICES                  |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Salaries                           | \$ 6,069,012        | \$1,408,318               | \$1,294,733                             | \$1,059,906             | \$ 947,052           | \$207,226        |                                    | \$ 413,342         | \$ 792,821                                 | \$1,793,312                | \$ 684,740              | \$522,254          | \$15,192,716        |
| Other Compensation                 |                     | 275                       |                                         | 7,575                   | 13,125               | 1,800            |                                    |                    |                                            |                            |                         |                    | 22,775              |
| Employee Benefits                  | 1,308,745           | 310,993                   | 272,388                                 | 222,526                 | 190,615              | 47,047           |                                    | 90,463             | 184,730                                    | 405,142                    | 161,961                 | 151,513            | 3,346,123           |
| Total                              | <u>7,377,757</u>    | <u>1,719,586</u>          | <u>1,567,121</u>                        | <u>1,290,007</u>        | <u>1,150,792</u>     | <u>256,073</u>   |                                    | <u>503,805</u>     | <u>977,551</u>                             | <u>2,198,454</u>           | <u>846,701</u>          | <u>673,767</u>     | <u>18,561,614</u>   |
| OPERATING EXPENSES                 |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Contracted Services                | 486,284             | 360,891                   | 171,868                                 | 25,124                  | 150,368              | 8,344            |                                    | 18,741             | 429,257                                    | 1,432,736                  | 247,033                 | 12,633             | 3,343,279           |
| Supplies & Materials               | 66,437              | 22,351                    | 168,309                                 | 14,943                  | 13,153               | 4,208            |                                    | 6,726              | 22,032                                     | 49,267                     | 14,605                  | 19,336             | 401,367             |
| Communications                     | 364,434             | 50,960                    | 31,429                                  | 64,947                  | 40,728               | 18,329           |                                    | 20,101             | 32,529                                     | 208,146                    | 77,182                  | 16,322             | 925,107             |
| Travel                             | 125,649             | 45,509                    | 32,980                                  | 80,816                  | 167,069              | 24,621           |                                    | 6,117              | 11,607                                     | 29,615                     | 7,111                   | 93,738             | 624,832             |
| Rent                               | 266,739             | 7,489                     | 176,372                                 | 4,780                   | 13,571               | 11,159           |                                    | 40,871             | 13,062                                     | 3,625                      | 54                      | 2,090              | 539,812             |
| Utilities                          | 98,262              |                           |                                         |                         |                      |                  |                                    | 2,681              | 43,706                                     |                            |                         |                    | 144,649             |
| Repair & Maintenance               | 196,145             | 24,086                    | 56,605                                  | 9,224                   | 7,220                | 3,775            |                                    | 4,650              | 58,867                                     | 36,387                     | 9,773                   | 11,742             | 418,474             |
| Other Expenses                     | 1,163,218           | 708,012                   | 92,317                                  | 260,136                 | 357,977              | 21,643           |                                    | 110,716            | 92,123                                     | 7,621                      | 6,347                   | 2,872              | 2,822,982           |
| Total                              | <u>2,767,168</u>    | <u>1,219,298</u>          | <u>729,880</u>                          | <u>459,970</u>          | <u>750,086</u>       | <u>92,079</u>    |                                    | <u>210,603</u>     | <u>703,183</u>                             | <u>1,767,397</u>           | <u>362,105</u>          | <u>158,733</u>     | <u>9,220,502</u>    |
| EQUIPMENT AND INTANGIBLE<br>ASSETS |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Equipment                          | 274,173             | 91,252                    | 62,424                                  | 24,417                  | 48,500               | 955              |                                    | 112                | 10,928                                     | 195,854                    | 58,210                  | 23,548             | 790,373             |
| Intangible Assets                  | 20,361              | 9,301                     | 7,409                                   | 5,171                   | 11,517               |                  |                                    |                    | 15,300                                     | 320                        |                         |                    | 69,379              |
| Total                              | <u>294,534</u>      | <u>100,553</u>            | <u>69,833</u>                           | <u>29,588</u>           | <u>60,017</u>        | <u>955</u>       |                                    | <u>112</u>         | <u>26,228</u>                              | <u>196,174</u>             | <u>58,210</u>           | <u>23,548</u>      | <u>859,752</u>      |
| CAPITAL OUTLAY                     |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Buildings                          | 310,499             |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    | 310,499             |
| Other Improvements                 | 5,034               |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    | 5,034               |
| Total                              | <u>315,533</u>      |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    | <u>315,533</u>      |
| GRANTS                             |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| From State Sources                 |                     |                           |                                         |                         |                      |                  | \$ 419,096                         | 835,130            |                                            |                            |                         |                    | 1,254,226           |
| From Federal Sources               | 137,778             |                           |                                         |                         |                      |                  | 7,617,919                          | 23,071             |                                            |                            |                         |                    | 7,778,768           |
| Total                              | <u>137,778</u>      |                           |                                         |                         |                      |                  | <u>8,037,015</u>                   | <u>858,201</u>     |                                            |                            |                         |                    | <u>9,032,994</u>    |
| BENEFITS & CLAIMS                  |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| From State Sources                 |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            | 578,449                 |                    | 578,449             |
| Total                              |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            | <u>578,449</u>          |                    | <u>578,449</u>      |
| TRANSFERS                          |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Accounting Entity<br>Transfers     |                     |                           |                                         |                         |                      |                  |                                    |                    | 11,183,757                                 |                            |                         |                    | 11,183,757          |
| Total                              |                     |                           |                                         |                         |                      |                  |                                    |                    | <u>11,183,757</u>                          |                            |                         |                    | <u>11,183,757</u>   |
| TOTAL PROGRAM<br>EXPENDITURES      | <u>\$10,892,770</u> | <u>\$3,039,437</u>        | <u>\$2,366,834</u>                      | <u>\$1,779,565</u>      | <u>\$1,960,895</u>   | <u>\$349,107</u> | <u>\$8,037,015</u>                 | <u>\$1,572,721</u> | <u>\$12,890,719</u>                        | <u>\$4,162,025</u>         | <u>\$1,845,465</u>      | <u>\$856,048</u>   | <u>\$49,752,601</u> |
| GENERAL FUND                       |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Budgeted                           |                     |                           |                                         | \$ 621,358              | \$ 19,567            | \$216,042        | \$ 384,764                         | \$ 863,412         |                                            |                            | \$ 69,582               |                    | \$ 2,174,725        |
| Actual                             |                     |                           |                                         | <u>601,881</u>          | <u>19,567</u>        | <u>216,042</u>   | <u>236,315</u>                     | <u>781,006</u>     |                                            |                            | <u>52,446</u>           |                    | <u>1,907,257</u>    |
| Unspent Budget<br>Authority        |                     |                           |                                         | \$ 19,477               | \$ -0-               | \$ -0-           | \$ 148,449                         | \$ 82,406          |                                            |                            | \$ 17,136               |                    | \$ 267,468          |
| SPECIAL REVENUE FUND               |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Budgeted                           | \$11,412,392        | \$3,512,517               |                                         | \$1,335,646             | \$2,195,283          | \$194,923        | \$9,020,130                        | \$ 842,284         | \$14,007,539                               | \$4,291,312                | \$1,842,418             | \$867,660          | \$49,522,104        |
| Actual                             | <u>10,892,770</u>   | <u>3,039,437</u>          |                                         | <u>1,177,684</u>        | <u>1,941,328</u>     | <u>133,065</u>   | <u>7,800,700</u>                   | <u>791,715</u>     | <u>12,890,719</u>                          | <u>4,162,025</u>           | <u>1,793,019</u>        | <u>856,048</u>     | <u>45,478,510</u>   |
| Unspent Budget<br>Authority        | \$ 519,622          | \$ 473,080                |                                         | \$ 157,962              | \$ 253,955           | \$ 61,858        | \$1,219,430                        | \$ 50,569          | \$ 1,116,820                               | \$ 129,287                 | \$ 49,399               | \$ 11,612          | \$ 4,043,594        |
| INTERNAL SERVICE FUNDS             |                     |                           |                                         |                         |                      |                  |                                    |                    |                                            |                            |                         |                    |                     |
| Budgeted                           |                     |                           | \$2,618,703                             | \$ 3,500                |                      |                  |                                    |                    |                                            |                            |                         |                    | \$ 2,622,203        |
| Actual                             |                     |                           | <u>2,366,834</u>                        | <u>0</u>                |                      |                  |                                    |                    |                                            |                            |                         |                    | <u>2,366,834</u>    |
| Unspent Budget<br>Authority        |                     |                           | \$ 251,869                              | \$ 3,500                |                      |                  |                                    |                    |                                            |                            |                         |                    | \$ 255,369          |

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DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

|                                 | Commissioner<br>of Labor &<br>Industry | Appeals         | Human<br>Rights   | Job<br>Service      | Unemployment<br>Insurance | Centralized<br>Service<br>Administration | Employment<br>Relations | Employment<br>Policy | Job Training<br>Partnership<br>Act | Project<br>Work    | Workers'<br>Compensation<br>Administration | State<br>Insurance<br>Fund | Insurance<br>Compliance | Safety<br>and<br>Health | Total               |
|---------------------------------|----------------------------------------|-----------------|-------------------|---------------------|---------------------------|------------------------------------------|-------------------------|----------------------|------------------------------------|--------------------|--------------------------------------------|----------------------------|-------------------------|-------------------------|---------------------|
| PERSONAL SERVICES               |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Salaries                        | \$116,076                              |                 | \$185,828         | \$ 6,398,001        | \$1,481,933               | \$1,272,384                              | \$1,031,731             | \$ 791,162           | \$ 24,530                          | \$ 261,885         | \$ 727,798                                 | \$1,648,802                | \$ 606,205              | \$528,384               | \$15,074,719        |
| Hourly Wages                    |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    | 1,024                                      | 6,324                      | 155                     |                         | 7,503               |
| Other Compensation              |                                        |                 | 1,800             | 6,246               | 100                       |                                          | 8,700                   | 7,925                |                                    |                    |                                            |                            |                         |                         | 24,771              |
| Employee Benefits               | <u>22,557</u>                          |                 | <u>41,785</u>     | <u>1,343,162</u>    | <u>324,764</u>            | <u>263,300</u>                           | <u>210,545</u>          | <u>158,725</u>       | <u>5,325</u>                       | <u>59,528</u>      | <u>166,859</u>                             | <u>377,681</u>             | <u>142,626</u>          | <u>152,423</u>          | <u>3,269,280</u>    |
| Total                           | <u>138,633</u>                         |                 | <u>229,413</u>    | <u>7,747,409</u>    | <u>1,806,797</u>          | <u>1,535,684</u>                         | <u>1,250,976</u>        | <u>957,812</u>       | <u>29,855</u>                      | <u>321,413</u>     | <u>895,681</u>                             | <u>2,032,807</u>           | <u>748,986</u>          | <u>680,807</u>          | <u>18,376,273</u>   |
| OPERATING EXPENSES              |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Contracted Services             | 2,204                                  |                 | 3,853             | 436,391             | 420,309                   | 181,054                                  | 16,369                  | 144,881              | 47                                 | 27,137             | 210,935                                    | 1,114,833                  | 123,329                 | 13,797                  | 2,695,139           |
| Supplies & Materials            | 811                                    | \$ 676          | 2,542             | 46,656              | 53,746                    | 127,739                                  | 5,788                   | 12,729               |                                    | 10,307             | 18,603                                     | 32,664                     | 9,627                   | 18,908                  | 340,796             |
| Communications                  | 2,888                                  | 961             | 19,584            | 312,838             | 64,551                    | 30,315                                   | 60,616                  | 33,041               | 44                                 | 15,997             | 20,523                                     | 172,739                    | 56,543                  | 16,324                  | 806,964             |
| Travel                          | 6,181                                  |                 | 15,193            | 95,838              | 33,063                    | 9,324                                    | 70,515                  | 113,534              | 123                                | 8,330              | 8,742                                      | 20,804                     | 4,170                   | 91,599                  | 477,416             |
| Rent                            | 131                                    |                 | 10,947            | 261,172             | 7,449                     | 145,447                                  | 4,837                   | 8,666                |                                    | 21,142             | 3,247                                      | 384                        |                         | 435                     | 463,857             |
| Utilities                       |                                        |                 |                   | 103,319             | 20                        | 50,926                                   |                         |                      |                                    | 905                | 42,251                                     |                            |                         |                         | 197,421             |
| Repair & Maintenance            | 695                                    |                 | 3,688             | 179,471             | 28,608                    | 46,196                                   | 7,205                   | 5,817                | 57                                 | 777                | 46,949                                     | 28,103                     | 10,559                  | 9,417                   | 367,542             |
| Other Expenses                  | <u>1,234</u>                           | <u>6</u>        | <u>18,825</u>     | <u>141,222</u>      | <u>41,207</u>             | <u>92,816</u>                            | <u>172,484</u>          | <u>120,660</u>       | <u>1,143</u>                       | <u>10,677</u>      | <u>94,413</u>                              | <u>5,940</u>               | <u>4,499</u>            | <u>1,042</u>            | <u>706,168</u>      |
| Total                           | <u>14,144</u>                          | <u>1,643</u>    | <u>74,632</u>     | <u>1,576,907</u>    | <u>648,953</u>            | <u>683,817</u>                           | <u>337,814</u>          | <u>439,328</u>       | <u>1,414</u>                       | <u>95,272</u>      | <u>445,663</u>                             | <u>1,375,467</u>           | <u>208,727</u>          | <u>151,522</u>          | <u>6,055,303</u>    |
| EQUIPMENT AND INTANGIBLE ASSETS |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Equipment                       | 3,229                                  | 31,370          |                   | 92,227              | 53,406                    | 32,902                                   | 17,330                  | 39,114               | 18                                 | 6,684              | 77,128                                     | 7,154                      | 15,540                  | 14,472                  | 390,574             |
| Intangible Assets               | <u>639</u>                             | <u>4,542</u>    |                   | <u>12,565</u>       | <u>785</u>                | <u>7,223</u>                             | <u>3,012</u>            | <u>12,651</u>        |                                    | <u>159</u>         |                                            | <u>150</u>                 |                         |                         | <u>41,726</u>       |
| Total                           | <u>3,868</u>                           | <u>35,912</u>   |                   | <u>104,792</u>      | <u>54,191</u>             | <u>40,125</u>                            | <u>20,342</u>           | <u>51,765</u>        | <u>18</u>                          | <u>6,843</u>       | <u>77,128</u>                              | <u>7,304</u>               | <u>15,540</u>           | <u>14,472</u>           | <u>432,300</u>      |
| BENEFITS & CLAIMS               |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| To Individuals                  |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            | 339,370                 |                         | 339,370             |
| From State Sources              |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            | <u>662,927</u>          |                         | <u>662,927</u>      |
| Total                           |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            | <u>1,002,297</u>        |                         | <u>1,002,297</u>    |
| TRANSFERS                       |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Accounting Entity Transfers     |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            | 154,937                 |                         | 154,937             |
| Total                           |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            | <u>154,937</u>          |                         | <u>154,937</u>      |
| CAPITAL OUTLAY                  |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Buildings                       |                                        |                 |                   | 135,792             | 31,442                    |                                          |                         |                      | 306                                | 16                 |                                            |                            |                         |                         | 167,556             |
| Total                           |                                        |                 |                   | <u>135,792</u>      | <u>31,442</u>             |                                          |                         |                      | <u>306</u>                         | <u>16</u>          |                                            |                            |                         |                         | <u>167,556</u>      |
| GRANTS                          |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| From State Sources              |                                        |                 |                   |                     |                           |                                          |                         |                      | 337,976                            | 647,856            |                                            |                            |                         |                         | 985,832             |
| From Federal Sources            |                                        |                 |                   | 14,987              |                           |                                          |                         | 2,750                | 8,261,932                          | 18,286             |                                            |                            |                         |                         | 8,297,955           |
| Total                           |                                        |                 |                   | <u>14,987</u>       |                           |                                          |                         | <u>2,750</u>         | <u>8,599,908</u>                   | <u>666,142</u>     |                                            |                            |                         |                         | <u>9,283,787</u>    |
| TOTAL PROGRAM EXPENDITURES      | <u>\$156,645</u>                       | <u>\$37,555</u> | <u>\$304,045</u>  | <u>\$ 9,579,887</u> | <u>\$2,541,383</u>        | <u>\$2,259,626</u>                       | <u>\$1,609,132</u>      | <u>\$1,451,655</u>   | <u>\$8,631,501</u>                 | <u>\$1,089,686</u> | <u>\$1,418,472</u>                         | <u>\$3,415,578</u>         | <u>\$2,130,487</u>      | <u>\$846,801</u>        | <u>\$35,472,453</u> |
| GENERAL FUND                    |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Budgeted                        |                                        |                 | \$211,688         |                     |                           |                                          | \$ 636,813              | \$ 4,547             | \$ 122,500                         |                    |                                            |                            | \$ 121,234              |                         | \$ 1,096,782        |
| Actual                          |                                        |                 | <u>211,688</u>    |                     |                           |                                          | <u>607,439</u>          | <u>4,500</u>         | <u>122,500</u>                     |                    |                                            |                            | <u>115,182</u>          |                         | <u>1,061,309</u>    |
| Unspent Budget Authority        |                                        |                 | \$ <u>0</u>       |                     |                           |                                          | \$ <u>29,374</u>        | \$ <u>47</u>         | \$ <u>0</u>                        |                    |                                            |                            | \$ <u>6,052</u>         |                         | \$ <u>35,473</u>    |
| SPECIAL REVENUE FUND            |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Budgeted                        | \$166,390                              | \$37,936        | \$220,555         | \$10,109,472        | \$2,696,459               | \$2,502,567                              | \$1,118,645             | \$1,728,589          | \$9,091,863                        | \$1,089,686        | \$1,429,884                                | \$3,473,727                | \$2,254,554             | \$932,112               | \$36,852,439        |
| Actual                          | <u>156,645</u>                         | <u>37,555</u>   | <u>92,357</u>     | <u>9,579,887</u>    | <u>2,541,383</u>          | <u>2,259,626</u>                         | <u>1,000,787</u>        | <u>1,447,155</u>     | <u>8,509,001</u>                   | <u>1,089,686</u>   | <u>1,418,472</u>                           | <u>3,415,578</u>           | <u>2,015,305</u>        | <u>846,801</u>          | <u>34,410,238</u>   |
| Unspent Budget Authority        | \$ <u>9,745</u>                        | \$ <u>381</u>   | \$ <u>128,198</u> | \$ <u>529,585</u>   | \$ <u>155,076</u>         | \$ <u>242,941</u>                        | \$ <u>117,858</u>       | \$ <u>281,434</u>    | \$ <u>582,862</u>                  | \$ <u>0</u>        | \$ <u>11,412</u>                           | \$ <u>58,149</u>           | \$ <u>239,249</u>       | \$ <u>85,311</u>        | \$ <u>2,442,201</u> |
| INTERNAL SERVICE FUNDS          |                                        |                 |                   |                     |                           |                                          |                         |                      |                                    |                    |                                            |                            |                         |                         |                     |
| Budgeted                        |                                        |                 |                   |                     |                           |                                          | \$ 3,430                |                      |                                    |                    |                                            |                            |                         |                         | \$ 3,430            |
| Actual                          |                                        |                 |                   |                     |                           |                                          | <u>906</u>              |                      |                                    |                    |                                            |                            |                         |                         | <u>906</u>          |
| Unspent Budget Authority        |                                        |                 |                   |                     |                           |                                          | \$ <u>2,524</u>         |                      |                                    |                    |                                            |                            |                         |                         | \$ <u>2,524</u>     |

This schedule is prepared from the Statewide Budgeting & Accounting System. Additional information is provided in the Notes To The Financial Schedules on pages 42 through 45.



DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF REVENUES, EXPENDITURES, AND TRANSFERS  
STATE COMPENSATION INSURANCE FUND  
AND UNEMPLOYMENT INSURANCE FUND  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

|                            | <u>State Compensation Insurance Fund</u> |                      | <u>Unemployment Insurance Fund</u> |                      |
|----------------------------|------------------------------------------|----------------------|------------------------------------|----------------------|
|                            | <u>June 30, 1987</u>                     | <u>June 30, 1988</u> | <u>June 30, 1987</u>               | <u>June 30, 1988</u> |
| REVENUES:                  |                                          |                      |                                    |                      |
| Contributions and Premiums | \$70,161,068                             | \$85,865,028         | \$60,678,303                       | \$54,500,323         |
| Investment Earnings        | 6,257,711                                | 3,578,623            |                                    |                      |
| Federal                    |                                          |                      | 2,314,646                          | 3,362,571            |
| Miscellaneous              | <u>525,333</u>                           | <u>41,642</u>        |                                    |                      |
| Total                      | <u>\$76,944,112</u>                      | <u>\$89,485,293</u>  | <u>\$62,992,949</u>                | <u>\$57,862,894</u>  |
| EXPENDITURES:              |                                          |                      |                                    |                      |
| Operating Expenses         | \$ 88,173                                | \$ 686,561           |                                    |                      |
| Benefits and Claims        | <u>79,550,040</u>                        | <u>90,557,850</u>    | <u>\$50,412,525</u>                | <u>\$42,290,521</u>  |
| Total                      | <u>\$79,638,213</u>                      | <u>\$91,244,411</u>  | <u>\$50,412,525</u>                | <u>\$42,290,521</u>  |
| TRANSFERS IN:              |                                          | <u>\$10,952,370</u>  |                                    |                      |
| TRANSFERS OUT:             | <u>\$ 6,160,248</u>                      | <u>\$ 7,322,705</u>  |                                    |                      |

The financial schedule above is provided for additional analysis of the financial activity of the department's two major functions, the Unemployment Insurance and Workers' Compensation Benefits programs. Some of the above activity is not presented on the Schedule of Revenues - Estimate and Actual or the Schedule of Program Expenditures by Object and Fund because it is nonbudgeted activity.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the Notes to the Financial Schedules on pages 42 through 45.

DEPARTMENT OF LABOR AND INDUSTRY  
NOTES TO FINANCIAL SCHEDULES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The department uses the modified accrual basis of accounting, which is described in the Montana Operations Manual for its General, Special Revenue, Debt Service and Expendable Trust Funds.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues.

The department uses the accrual basis of accounting for its Internal Service Fund. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred (if measurable).

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis

of funds according to state law. The following fund types are used by the department:

General - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Department activity recorded in this fund is primarily related to federal assistance programs.

Debt Service - to account for accumulation of resources for, and the payment of, long-term debt principal and interest. Federal assistance funds received to service a portion of the debt on the department's headquarters is accounted for in this fund.

Internal Service - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis. In fiscal year 1987-88 the department recorded Centralized Services Division activity in this fund.

Trust - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. This includes the Expendable Trust Funds. The department accounts for the Unemployment Insurance and Workers' Compensation programs in this fund.

## 2. ANNUAL AND SICK LEAVE

Employees at the department accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Department of Labor and Industry. Expenditures for termination pay currently are absorbed in the annual operational costs of the department. At June 30, 1988, the department had an approximate liability of \$1,272,609 for annual leave and \$689,134 for sick leave.

## 3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to this plan was \$960,436 in fiscal year 1986-87 and \$992,254 in fiscal year 1987-88.

## 4. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide

General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. BUILDING

The 1981 Legislature appropriated funds for the construction of a Workers' Compensation building. Annual payments on the building are expensed in the division's operating budget. The annual payments for fiscal years 1986-87 and 1987-88 were \$434,100 and \$430,462, respectively. Obligations on the building are as follows:

|      |           |
|------|-----------|
| 1989 | \$431,337 |
| 1990 | 430,512   |
| 1991 | 427,987   |
| 1992 | 429,075   |
| 1993 | 428,200   |
| 1994 | 424,412   |
| 1995 | 442,412   |
| 1996 | 292,775   |

The long-term debt associated with the building is reported on the financial statements of the Department of Administration.

6. STATE WORKERS COMPENSATION INSURANCE

The payment of benefits to injured workers is funded through employer contributions to the state operated workers' compensation insurance system. The most recent actuarial evaluation, issued for the fiscal year ending June 30, 1988, showed a large underwriting loss from operations over the prior year. At June 30, 1988, actuarial liabilities exceeded assets by \$157.3 million. There are no funds presently available as a contingency reserve.

7. CENTRALIZED SERVICES DIVISION

The Centralized Services Division provides overall management and support services to the department. Services include legal assistance, personnel, accounting, data processing, auditing, budgeting, and economic forecasting. The department moved the division's transaction activity to the Internal Service Fund in fiscal year 1987-88 to ensure that Centralized Services activity would not cause double counting of revenues and expenditures in the Special Revenue Fund. Division expenditures

were \$2,366,834 in the Internal Service Fund in fiscal year 1987-88 and \$2,259,626 in the Special Revenue Fund in fiscal year 1986-87.

8. DEPARTMENT REORGANIZATION

The department reorganized its functions on July 1, 1986. An Employment Relations Division was established and included the audit function from the Centralized Services Division, unemployment and personnel appeals functions from the Appeals Division and wage claim and investigations function from the Labor Standards Division.

The Employment Policy Division was established and included the apprenticeship oversight program from Labor Standards Division, the training function of the Job Service Division and the research and analysis function of the Centralized Service Division. In addition, the Commissioner's office was merged into the Centralized Service Division on July 1, 1987.

9. LITIGATION

Michael W. O'Malley v. State Compensation Insurance Fund and Division of Workers' Compensation; The claimant has filed a Petition for Hearing alleging that numerous provisions of the Workers' Compensation Act, as amended in 1987, are unconstitutional. The claimant challenges the impairment rating process, mediation, the rules of procedure and evidence in Workers' Compensation Court, the intent statute of the Act, and that the claimant is not allowed a trial by jury.

The challenges contained in this action are vast and would have a great impact on the 1987 revisions to the Workers' Compensation Act. The potential financial impact is unknown at this time.



AGENCY RESPONSE



DEPARTMENT OF LABOR AND INDUSTRY

COMMISSIONER'S OFFICE



STAN STEPHENS, GOVERNOR

P.O. BOX 1728

STATE OF MONTANA

(406) 444-3555

HELENA, MONTANA 59621

January 23, 1989

Scott A. Seacat  
Legislative Auditor  
Office of the Legislative Auditor  
State Capitol  
Helena, MT 59620

**RECEIVED**

JAN 23 1989

Montana Legislative Auditor

Dear Scott:

Attached is our response to the narrative segment of your final report on the audit of the Department of Labor and Industry. Copies of the audit report you provided to us are also enclosed.

We appreciate the cooperation of you and your staff in taking the time to review the audit findings with us in detail.

The department administrators and I will be happy to continue working with you and the Legislative Audit Committee to answer questions about the audit and our response.

Thank you for your help.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mike Micone".

MIKE MICONE  
Commissioner

Enclosures

MONTANA DEPARTMENT OF LABOR AND INDUSTRY

Response to Legislative Audit  
for the two years ended June 30, 1988

RECOMMENDATION #1:

We recommend the department:

A. Deposit the assessments in a state treasury bank account within the special revenue fund as required by state law.

Department response:

Concur. The department will begin this procedure when the current contract for banking services expires. However, we believe that the interest generated from these funds should follow the principle and be transferred to the Unemployment Insurance Trust Fund.

B. Deposit \$417,876 and future interest earned on the assessments in the General Fund.

Department response:

Do not concur. The administrative fund tax was created as a set-aside out of the unemployment insurance tax rate structure. Employers agreed to support the tax, so long as the collected monies not used to fund department activities reverted to the trust fund in the manner that they did under the original tax structure. To now transfer the interest from those funds would abrogate the trust of employers, and would have the effect over the long run of raising unemployment insurance taxes. The department will seek a change in the statute, if necessary, to ensure that the interest is credited to the UI Trust Fund.

RECOMMENDATION #2:

We recommend the department:

A. Implement control procedures, such as those detailed above, to prevent medical payment errors.

Department response:

Concur. Between now and the time of the Audit Committee meeting, the Workers' Compensation Division will analyze each refund transaction identified by the auditors to determine whether the refund was caused by a computer system error, a human error or if, in fact, the refund should not be classified as an error. Once we know precisely what caused the refunds, we will

develop a plan of action to deal with the problems that are controllable.

**B. Adopt procedures to reduce the time required to process medical payments.**

Department response:

Concur. During fiscal year 1988, the Workers' Compensation Division identified a serious backlog in processing medical payments. The Division sought and was granted approval to hire additional staff to solve the problem. For the quarter ending December 31, 1988, 30% of all medical bills were paid within 14 days of receipt, 75% within 29 days of receipt and 92% within 44 days of receipt. This performance clearly indicates that the Division has already complied with the recommendation.

**RECOMMENDATION #3:**

**We recommend the department automate the processing of compensation checks.**

Department response:

Concur. Programs to automate fixed liability payments are in the final stages of development and testing, and the Workers' Compensation Division anticipates implementation in mid-February, 1989. These programs are also capable of generating payments of ongoing compensation, and procedure design to allow for increasing the numbers of checks issued by the computer system will be initiated soon after stabilization of the original application. Because it is critical to issue compensation checks to claimants every day, we will proceed cautiously in automating the process.

**RECOMMENDATION #4:**

**We recommend the department:**

**A. Ensure the DWC data processing systems provide a suspense file for reserve transactions, compensation payments, and medical payment financial adjustments.**

Department response:

Concur. Providing an automated suspense function for monitoring all rejected financial transactions is in the best interest of the Workers' Compensation Division. The Division will pursue this recommendation when funds and staff are authorized.

**B. Implement control procedures to decrease the processing time of rejected medical payment documents.**

Department response:

Concur. The Workers' Compensation Division will evaluate the current report and determine if minor changes will make it workable. If new attributes are needed which will require a rewrite of the report, it will be accomplished when staff and funds are authorized.

**RECOMMENDATION #5:**

**We recommend the department implement procedures in the rate setting process to ensure the SCIF is self supporting in compliance with state law.**

Department response:

The department concurs with the recommendation, but does not concur with the assertion that the rates set effective July 1, 1988, were set too low. Current rates were set using the best actuarial estimates available in April, 1988. The attached copy of a letter from our actuary dated May 26, 1988, states, "The overall revenue over payroll increase of 3.3% should be sufficient, with the 1988-89 payroll tax revenues, to cover the incurred claims during the 1988-89 fiscal year, and to continue the amortization of the unfunded liability over the ten years beginning July 1, 1987." (See Attachment A.)

**RECOMMENDATION #6:**

**We recommend the department:**

**A. Automate the initial reserve process.**

Department response:

Concur. The Workers' Compensation Division's budget request for the next biennium includes a computer development modification. If the modification is approved, the Division will implement this recommendation.

**B. Ensure the reserve analyst documents changes in reserve estimates.**

Department response:

Do not concur. An area on each claim file (computer record) for comments by the reserve analyst was considered and found to be too costly. Reserve analysts follow well-established procedures

in setting reserves. We feel the system in place adequately addresses placing proper reserves on individual claims.

**RECOMMENDATION #7:**

We recommend the department compile historical reserve data by injury type on its computer system.

Department response:

Concur. When the present computer system was developed, the need for historical reserve data by injury type was recognized, and the Workers' Compensation Division is currently capturing the necessary information on the computer database. The Division's budget request for the next biennium includes a computer development modification. If that modification is approved, we will be able to respond to this recommendation. Accidents which occurred after major reform legislation was passed last session have not matured to the extent that the data is useful in analyzing trends, but once the information is useful, it will be utilized.

**RECOMMENDATION #8:**

We recommend the department continue development of procedures to reconcile totals of the 12 year report.

Department response:

Concur. Procedure development is in progress.

**RECOMMENDATION #9:**

We recommend the department establish and implement procedures to ensure inactive files are microfiched for storage in a timely manner.

Department response:

Concur. We will strive to continue the process on a scheduled basis.

During the past fiscal year, the Workers' Compensation Division reactivated its claim file microfilm process. The program had been temporarily deactivated during a period when the microfilm clerk was assigned to higher priority duties.

Recent funding requests to expand processing to current policyholder files have been unsuccessful.

#### RECOMMENDATION #10:

We recommend the department:

A. Seek proper authorization for and record all inter-entity loans.

Department response:

Concur. The Workers' Compensation Division will record an inter-entity loan beginning with the current fiscal year.

B. Develop a billing schedule that ensures consistent timing of collections from participants in the three insurance plans.

Department response:

Partially concur. The Workers' Compensation Division will prepare the Administrative Assessment Report as soon as possible each fiscal year while considering other priority assignments.

#### RECOMMENDATION #11:

We recommend the department charge interest on overdue worker's compensation premium accounts.

Department response:

Charging interest on overdue workers' compensation premium accounts is a public policy issue. The previous Administration chose not to charge interest. The issue will be presented to the current Administration. The Workers' Compensation Division's budget request for the next biennium includes funds for computer development. If the modification is approved and the Administration wants to charge interest, the computer system could be modified to allow it.

#### RECOMMENDATION #12:

We recommend the department:

A. Restructure ACF2 rules to limit computer access to the level job duties require.

Department response:

Concur for Unemployment Insurance Division. The rules will be changed for systems identified as critical for disaster recovery. This will be implemented during 1989.

Partially concur for Workers' Compensation Division. The Division's ACF2 rules are structured to allow access to only

those individuals that are authorized to process or maintain our system. Because the Information Systems Division personnel allowed access are responsible for all systems recovery and maintenance, the Division is currently in compliance with the recommendation.

The two data files used by the WC Division that are not protected by ACF2 will be changed to comply with required naming when staff and funding are authorized.

**B. Implement procedures to ensure system access is cancelled for terminated employees.**

Department response:

Concur for the Unemployment Insurance Division. UID has developed and implemented a written policy, "Identification Numbers and Passwords for Benefit, Tax and SYSM Computer Files," 2.17a P&EB. It requires users to notify the UID Internal Security Officer within three working days when an employee leaves or no longer requires access to the computer system. As a backup measure, the UID Internal Security Officer requests an employee terminations report from the Personnel and Training Bureau on a bi-monthly basis advising of any employee terminations. Any terminated employees showing on the password file are removed the same day the report is reviewed.

Concur for the Workers' Compensation Division. The Division has implemented this recommendation. The Division Personnel Officer notifies the Division Security Officer when an employee is terminated, and the Security Officer "freezes" the password for the assigned user identification number. When the position is rehired, the same user identification number is reactivated, minimizing the possibility of improper assignment of access capability for the position. Because there are so many levels of security (WANG VS, ACF2, IDMS and Test IDMS), and due to the number of transfers and turnovers within the Division, occasionally the individual name assigned is not changed as quickly as it should be.

**C. Develop and implement procedures to protect password security.**

Department response:

Partially concur. The Unemployment Insurance Division (UID) has two written and implemented policies regarding password security: 1) "Identification Numbers and Passwords for Benefit, Tax and SYSM Computer Files" 2.17a P&EB; and 2) "Changing Passwords and Verification of Individuals Granted Access into the Unemployment Insurance Benefit and Tax Computer Files" 2.17d P&EB.

The "Identification Numbers and Passwords for Benefit, Tax and SYSM Computer Files" policy requires immediate notification to the UID Internal Security Officer when system access is no longer needed. Written notification must be submitted within three working days of the requested change. The request can be made by the user or his/her supervisor.

This policy also requires that an "ID & Password Request" form is completed on each individual requesting a password. The form includes a statement stating that passwords are not to be shared and gives information on confidentiality of the Benefit and Tax files. The new password user must sign a statement verifying they have read and understand the information regarding password use and confidentiality.

As a backup to this policy, the UID Internal Security Officer monitors bi-monthly personnel changes. Password and security level changes are adjusted accordingly.

The Internal Security officer has also requested the Personnel Office to add a statement to the department's exit interview form requesting supervisors to terminate an employee's password before he/she leaves.

The "Changing Passwords and Verification of Individuals Granted Access into the Unemployment Insurance Benefit and Tax Computer Files" policy requires that all user passwords are changed annually. Six months after a password changes, the policy requires the UID Internal Security Officer to conduct a formal verification of each individual granted access to the Benefit and Tax files. A written report of the verification findings is given to UID management.

Even with written policy implemented, individuals sharing passwords with someone else is not fully controllable.

#### **D. Segregate incompatible job duties in the EDP function.**

##### Department response:

Concur for the Unemployment Insurance Division. When ACF2 rule restructuring is completed, the security officer function will be moved out of EDP.

Partially concur for the Workers' Compensation Division. Due to staffing limitations and the technical nature of maintaining the security function, segregation of security maintenance and programming is not possible. However, the Division has assigned the responsibility for reviewing violation reports to a non-DP employee.

### RECOMMENDATION #13:

We recommend the department ensure adequate segregation of duties among employees administering unemployment taxes.

#### Department response:

Concur. The cashier prepares adjustment documents correcting input errors only on original quarterly wage reports that have been entered. The cashier does not have access to and does not enter any data into the Unemployment Insurance Tax Accounting System. The adjustment documents made by the cashier are initialed by the cashier's supervisor as approved. Starting immediately, adjustment documents prepared by the cashier will be accompanied by a copy of the original quarterly report to justify the correction. The adjustment document is approved and initialed by the Employer Accounts Supervisor.

The programming performed to enable magnetic tapes to be processed cannot change the wage amounts on the tapes. The wage information is verified by Contributions Bureau personnel after it is updated on the Benefit System. Beginning with the third quarter of 1988, all magnetic tapes are processed through Production Control. A program is now in place to accomplish this.

The secretarial position that previously opened mail and input during the end of the quarter no longer performs input duties. The clerical position that also prepared adjustment documents is only authorized to input original quarterly reports at the end of the quarter. During this time, this position performs only input duties and is not allowed to prepare input documents. This is monitored by having the preparer's supervisor review and initial the input documents. Duties have been segregated so that any position which opens mail or preparing input documents does not perform input duties during the same period.

### RECOMMENDATION #14:

We recommend the department restrictively endorse checks upon initial receipt.

#### Department response:

Do not concur for the Unemployment Insurance Division. The department has studied check endorsements using cost model methodology and found it not to be cost effective. Restrictively endorsing checks takes longer than our current procedures, and would negatively impact our federal standards for the timely deposit of funds.

Do not concur for the Workers' Compensation Division. The Auditor's discussion of this recommendation states that the

Division should list the checks received or indicate on the statement payment was received, detach the checks from the statements and endorse the checks. Preparing a list of the checks received would add a considerable workload to cashiers who presently must work in excess of a normal work schedule to accomplish all required processing. Checks cannot be detached from statements until both have assigned the same identifying number. Compliance with this recommendation would cause checks presently handled twice (once in the Mail Room and once by cashiers) to be handled three times. The Division cannot accommodate this increased workload.

**RECOMMENDATION #15:**

**We recommend the department strengthen controls over undelivered benefit and refund checks.**

Department response:

Concur for the Unemployment Insurance Division. A written procedure/policy instituted at the time of the audit provided for periodic supervisory comparison of the actual returned checks and the returned check log and for a separation of duties between two individuals, one who retains physical custody of the checks and the other who maintains the log of returned checks.

A copy of the policy in question is attached for your reference. The strikeovers and underlines are draft deletions and additions based upon the recommendations of the Benefits Accounting Task Force. Those changes are pending review by the Benefits Bureau supervisory staff (See Attachement B.)

Partially concur for the Workers' Compensation Division. The Division will attempt to log undelivered benefit and refund checks on a daily basis and to record the final disposition of the check on the log. In addition, the supervisor will perform a monthly unannounced reconciliation of the log and the physical documents. We do not agree that assigning separate personnel the recordkeeping and custody responsibilities will result in checks being logged any quicker than is now being done. Division accounting staff work many hours in excess of the normal work schedule to complete required processing. Staff process undelivered benefit and refund checks in accordance with the priority assigned this function.

#### RECOMMENDATION #16:

We recommend the department develop and implement procedures to ensure physical security of supplies inventory.

##### Department response:

Concur. We will continue to strive for cost effective safeguards against any property loss. In reference to the 24 cases of blank checks, it should be noted that they did not remain in the stairwell overnight. Our procedures have always required that blank checks be stored in a secure area.

Additionally, the blank checks are of no use without the signature. If a bank cashes the check without the authorized signature, the bank is liable for the loss, not the department.

#### RECOMMENDATION #17:

We recommend the department develop procedures to ensure contract expenditures are supported by written agreements.

##### Department response:

Concur. The Workers' Compensation Division has implemented a written policy governing contracted services expenditures. The individual responsible for making payments has been instructed to delay contracted services payments for any items that do not meet the policy criteria.

#### RECOMMENDATION #18:

We recommend the department establish procedures to ensure the financial activity recorded in SBAS is in accordance with GAAP.

##### Department response:

The department makes and has made an extensive effort to insure accurate and complete recording of financial activities. Further automation of internal accounting functions will increase efficiency and accuracy. As with any system, errors can and will be made. The department has taken specific steps to correct the errors referenced in the audit report.

1. The department will reconcile all entries between the (11000) General Fixed Assets Group and PAMS. We will make the entries necessary to insure that both systems are correct and reflect the most current information by fiscal year end.

2. The department agrees with the Auditor's findings and will institute procedures at fiscal year end to minimize the possibility that the error will occur again.

3. The department corrected its accounting records in December, 1988, and removed the payable from its records.
4. The department concurs and will take corrective action to record the missing activities by fiscal year end.
5. The department has changed its SBAS ICC and is now recording the expenditures as benefits and claims.
6. The department concurs, and has implemented the necessary changes.
7. The department concurs. Within the past two years the department has made a concentrated effort to automate procedures to insure the recording of proper fund balances. As we continue to automate and improve these procedures, errors will be reduced. Prior to this automation an accurate matching would not have been possible.
8. The department concurs. The Workers' Compensation Division will record the best known liability figures on SBAS beginning in Fiscal Year 1989.

**RECOMMENDATION #19:**

**We recommend the department record allowance for doubtful accounts according to state policy.**

Department response:

Concur. The department has implemented the necessary changes.

**RECOMMENDATION #20:**

**We recommend the department deposit receipts on a timely basis in accordance with state law.**

Department response:

Partially concur for the Unemployment Insurance Division. Currently, 99 percent of the checks received by the UI Division are deposited within one day of receipt. During periods of peak receipt, two deposits are made daily. Two deposits are also made on Friday so that no checks remain in the office over the weekend. The only checks that are not immediately deposited are those checks for which the Division must determine who the proper recipient of the funds should be (for example, when the Division receives a check made out to another state agency).

Concur, but cannot implement for the Workers' Compensation Division. Passage of the .3% payroll tax nearly doubled the

number of documents Division cashier staff must process. The Division did not receive additional staff or funding to administer the payroll tax. The Division's request for 1.5 FTE's in the next biennium to process payroll tax was approved by the House Appropriation Human Services sub-committee. This FTE request, however, will still not allow the Division to deposit all payroll tax receipts on the day they are received. On days in which 3,000-4,000 checks are received, deposits may be delayed as many as 11 days.

**RECOMMENDATION #21:**

We recommend the department transfer abandoned property to the department of revenue in accordance with state law.

Department response:

Concur. The department will transfer the \$2,843 in unclaimed CETA participant wages to the department of revenue in accordance with state law.

**RECOMMENDATION #22:**

We recommend the department:

A. Require duplicate receipts of payments made to Worker's Compensation recipients as required by state law; or

Department response:

Section 39-71-306(1), MCA, required every self-insured employer and private carrier to file with the Workers' Compensation Division duplicate receipts for all payments made during the previous month to injured workers or their beneficiaries or dependents. While the Division does not comply with the literal interpretation of the law, the spirit of the law is complied with by requiring these employers and carriers to submit reports which identify the claimant and provide the reason for the report, compensation rate, payment detail, transaction detail and signature of the employer's or carrier's representative.

B. Seek legislation to change the statute requiring receipts.

Department response:

Concur. The Workers' Compensation Division will seek a change in the law in the 1991 session.

#### RECOMMENDATION #23:

We recommend the department seek legislation to repeal the requirement for compiling census reports.

##### Department response:

Concur. The department has drafted and submitted proposed legislation to the 1989 Legislature to repeal the requirement for compiling the census reports.

#### RECOMMENDATION #24:

We recommend the department:

A. Formulate a written policy defining "Unduly Dangerous" workplaces.

B. Enforce state law regarding advanced rate assessments for "Unduly Dangerous" workplaces.

##### Department response:

Although the Workers' Compensation Division does not have a formal written policy for enforcing state law regarding advanced rate assessments, policy does exist for dealing with firms having unduly dangerous workplace conditions. Loss control staff assist high hazard firms in providing for a safe workplace, and the safety incentive program passed by the last legislature motivates employers to establish ongoing safety programs. If Safety Bureau staff become aware that imminent danger or serious workplace hazards exist, recommendations for immediate corrections are provided to the employer. If corrections are not made, the Safety Bureau Chief will notify the employer in writing that the unsafe situation must be remedied within an appropriate time period. If the employer does not respond or cooperate, the administrator will notify the employer and demand that the situation be remedied within a certain time period or the advanced rate will be imposed.

#### RECOMMENDATION #25:

We recommend the department adopt cash management procedures to ensure timely drawdowns of federal grant funds.

##### Department response:

Partially concur. Federal government delays and reimbursement-based contracts are the primary reasons for the inter-entity loan, not Human Rights Division delays in vouchering. Even when we submit vouchers in accordance with the vouchering schedules, the federal government does not process them in a timely manner.

In general, however, the Human Rights Division agrees that its practices regarding vouchering for payment from federal agencies could be improved. We would note that in the case of 1987-1988 HUD grant referred to in the report, the Division has very few expenditures associated with the grant until the fourth month.

**RECOMMENDATION #26:**

We recommend the department continue to develop and implement procedures to review subgrantee audit reports for compliance with audit standards.

Department response:

Concur. We are currently in the process of developing the audit monitoring checklist to enable us to review and document compliance with audit standards. The checklist will be developed and implemented within State Fiscal Year 1990.

**RECOMMENDATION #27:**

We recommend the department adopt procedures to ensure federal financial reports are supported by the state's accounting records.

Department response:

Concur. The department has converted accounting subsystems to SBAS over the last couple of years and we are still fine tuning that system. We currently input detail accounting transactions into SBAS which will ensure the federal reports match to SBAS.

**RECOMMENDATION #28:**

We recommend the department ensure federal reports are submitted in a timely manner.

Department response:

Concur, although continued reductions in staffing continue to exert pressure on this function.





# C & B CONSULTING GROUP

COATES, HERFURTH & ENGLAND, INC.

May 26, 1988

## CONFIDENTIAL

Mr. John L. King  
Assistant Bureau Chief  
State Compensation Insurance Fund  
Division of Workers' Compensation  
P. O. Box 4759  
Helena, Montana 59604

Re: Rate Action Effective July 1, 1988

Dear John:

I have reviewed the information that you sent on May 11 with respect to the methodology used to determine the rate levels by individual class code. It is my opinion that this methodology is reasonable, in light of the fact that we are now reverting back to a rating policy whereby relative rate levels by class code will be more directly reflective of actual experience of the code, considering, of course, the credibility of the experience of the group. It would be difficult to try to accomplish this in one year, since this change in policy does lead to some substantial adjustments on the upside for some class codes. As long as the aggregate revenue produced by the new rates meets the required level as determined by our overall fund experience calculation, the upward increases can be limited by placing a lower limit on the amounts by which rates of other class codes would otherwise decrease.

The overall revenue over payroll increase of 3.3% should be adequate if the following assumptions hold true:

1. Revenues from payroll taxes during the 1988-89 fiscal year approximate \$12,500,000. This assumes a 3% increase in the aggregate state taxable wage base over 1987-88.
2. That the affect of SB315 will be to reduce liabilities at least 20%. We discussed this assumption at length during my visit of April 6, 1988. The results of these discussions were that there have been no new events which have taken place since our evaluation of the effect of SB315, which would alter our original estimates.
3. That the "old law" cases communicated in the March 11, 1988 memorandum from Jim Gardner to you do indeed have a minimal total liability impact, as I gathered during our April 6 meeting.

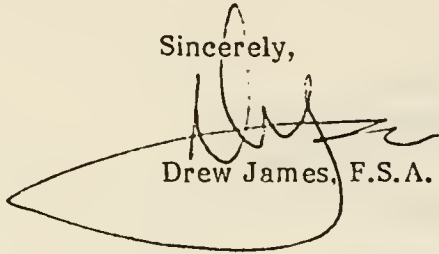
Mr. John L. King  
State Compensation Insurance Fund

-2-

May 26, 1988

The overall revenue over payroll increase of 3.3% should be sufficient, with the 1988-89 payroll tax revenues, to cover the incurred claims during the 1988-89 fiscal year, and to continue the amortization of the unfunded liability over the ten years beginning July 1, 1987.

Sincerely,



Drew James, F.S.A.

DJ/ml

## RETURNED BENEFIT CHECKS

PURPOSE: To provide procedures for the safekeeping and disposition of benefit checks that have been returned by the Postal Service as undeliverable.

POLICY:

1. To obtain current addresses for claimants whose checks have been returned as undeliverable and to re-mail those checks immediately upon obtaining a current address, provided that a new address can be obtained within 90 days of the date of issue of the check. Benefit checks are considered to be "stale-dated" after 90 days from their date of issue and may not be cashed. Stale-dated checks will be purged from the Returned Check File by the 5th day of the month following the month in which they become 90 days old, within 30 working days from 90 days of the date of issue.
2. To require that at least two persons are responsible for maintaining an internal record of returned checks and for the receipt, storage and re-mailing of such checks. In no instance will the two persons assigned responsibility for those functions act as back-ups for each other.
3. To provide for periodic supervisory review of the accuracy of record keeping and adherence to procedures.

PROCEDURE: Checks Less Than 90 Days Old From Date Of Issue

1. Benefits Bureau mail personnel date-stamp the envelope in which the check was returned and delivers it with the check to the Administrative Clerk II (ACII) (Position #02077) assigned to the Monetary Section Supervisor.
2. The ACII first checks the Claimant Profile Data screen (01) on CICS/ES01 Benefit Payment and Accounting System (BPAS) to compare the claimant's address on the system with the address on the check. If the address on the system differs from that on the check, it is assumed that the system address is the more current of the two and has been confirmed by the Job Service Office responsible for administering the claim. After the check is logged "In" and "Out" of the Returned Check Log as described in Item Nos. 3 and 6, the ACII re-mails the check to the more current address.
3. If the address on the check is the same as that on the system, the ACII delivers the check and the envelope in which it was received to the Claims Clerk II (CCII) (Position #02083) assigned to the Monetary Claims Examiner II and enters into the Returned Check Log the following information:

- a. Date of receipt;
  - b. Claimant's name;
  - c. Claimant's Social Security Number;
  - d. Week-ending date to which the check applies;
  - e. Reason for the check's return, as indicated by the Postal Service message stamped on the outside of the envelope in which the check was returned.
4. The CCII files the check and its envelope alphabetically in a fire-proof locking file cabinet.
5. The ACII makes a request via telephone, SYSM (electronic mail system) or hard copy (Form UI-218a) to the appropriate Job Service Office (as indicated on the Claimant Profile Data screen) to obtain and provide a current address for the claimant.
6. The ACII advises the CCII upon receipt of a new address and enters the new address on the BPAS data entry Change Basic Data screen (A3), unless the address has already been entered at another source. If a new address is obtained from a source other than the Job Service Office responsible for administering the claim in question and the new address is outside the claimant's reporting area and the claim has not been reopened (BPAS Monetary Determination screen "07") or if there was no break in the claim series after the week to which the check applies (BPAS Benefit Payment History screen "06", Pay Type "11" or "18"), the Continued Claim Form UI-204 will not be mailed with the check. Instead, a notification will be included with the check advising the claimant that if he wishes to continue to draw against his claim, he must report to the nearest Job Service and reopen his claim.
7. The check and the envelope in which it was originally returned are mailed to the new address.
8. The Monetary Section Supervisor or a designee in a supervisory position will periodically audit the Returned Check Log to ensure it accurately reflects the contents of the Returned Check File.

#### Checks More Than 90 Days Old From Date Of Issue

1. Within the time limits described in the policy section, above, the CCII retrieves the check from the file, stamps it with the notation "Stale Date", and enters the disposition ("Stale Dated") and date into the Returned Check Log and places the check into the stale dated check file;
2. enters information concerning the check onto BPAS

data entry Missing Benefit Check screen (H1), entering code "7" at the "Missing Check Type" prompt;

3. enters information concerning the check onto the Cancelled Check Form and routes a photocopy of the completed form to the Accounting Specialist II located in the Contributions Bureau and to the Systems Analyst located in the Information Services Bureau;

4. checks the BPAS Claimant Profile Data screen (01) for an outstanding benefit overpayment balance.

a. If a balance exists the CCII notifies the Benefit Overpayment Unit (BOP) that a stale-dated check is being held that may be used to apply to the overpayment. If BOP obtains the claimant's consent to use the check or if the claimant cannot be located, the CCII enters the required information on BPAS data entry Issue Duplicate Check screen (J2) to cause a the issuance of a new check. ~~The-CCII~~ BOP retrieves the new check from the mail room using Check Pull Form UI-269; ~~delivers-it-to-BOP~~ and places a photocopy of the new check in the claimant file with the notation that the check has been used to offset a benefit overpayment.

b. If no overpayment balance exists, ~~the-CCII sends-a-form-letter-to~~ and the claimant's forwarding address, ~~if-one~~ is indicated on the envelope in which the check was returned, advising ~~that-retuned-mail-is-being-held-and-requesting~~ confirmation-of-the-accuracy-of-the-forwarding address. ~~--If-the-forwarding-address-can-be~~ confirmed, the CCII issues a new check as in Item 4a, above, and delivers it to the ACII to be mailed. The ACII enters the new address on the BPAS data entry Change Basic Data screen (A3), unless the address has already been entered at another source, and mails the check to the new address. ~~If-the-forwarding-address-cannot-be~~ confirmed, ~~no-new-check-is-issued.--In-either~~ case, ~~the-stale-dated-check-is-stapled-into-the~~ claimant's-file-which-is-then-retuned-to-the filing system.

Reference: Legislative Auditor's Recommendations.

Inquiries: Claims Examiner Supervisor, Monetary Section, Benefits Bureau.

Eff. 3/1/88





